

Survey of the Czech Economy and MIT Sectors in 2005



Ministry of Industry and Trade of the Czech Republic

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CONTENTS

LIST OF ABBREVIATIONS	3
INTRODUCTION	5
SUMMARY OF TRENDS IN THE ECONOMIC DEVELOPMENT IN 2005	7
I. MAIN TENDENCIES IN THE MACROECONOMIC DEVELOPMENT IN 2005	17
I.1. Performance of the economy	17
I.2. Labour market	20
I.3. Price and fiscal policy	26
I.3.1. Price policy	26
I.3.2. Fiscal policy	30
I.4. Monetary policy and foreign direct investments	33
I.4.1. Monetary policy	33
I.4.2. Foreign direct investments	41
I.5. Capital market	43
I.6. Financial situation of non-financial sector	47
II. INDUSTRY	53
II.1. Production, employment and productivity	53
II.2. Investments in industry	69
II.3. Financial situation in industrial enterprises	71
III. CONSTRUCTION	79
III.1. Production, employment and productivity	79
III.2. Development in housing	83
III.3. Financial results of construction	84
IV. EXTERNAL TRADE	87
IV.1. Overall results	87
IV.2. Territorial structure	90
IV.3. Commodity structure	92
V. INTERNAL TRADE AND FINAL CONSUMPTION OF HOUSEHOLDS	97
V.1. Trade Sectors	97
V.2. Final consumption of households	99
Part with Annexes	105

The Survey presents data as on 31 March 2006

LIST OF ABBREVIATIONS

A + PL	Shares and investment certificates
BCPP	Stock Exchange in Praha
BFI	Business Future Index
BLS	Bureau of Labor Statistics USA
BUX	Hungarian Stock Market Index
CAC 40	French Stock Market Index
CESI	Central European Share Index
CKA	Czech Consolidation Agency
CZSO	Czech Statistical Office
DAX	German Stock Market Index
DPFO	Natural person income tax
DPPO	Legal person income tax
ECB	European Central Bank
EIB	European Investment Bank
EMU	Economic and Monetary Union
Fed	US Federal Reserve Office
FTSE	British Stock Market Index
GfK	Market Research Institute in Praha
HICP	Harmonised Index of Consumer Prices
HI-TECH	Technically highly advanced products
ILO	International Labour Organization
IPP	Industrial Production Index
M1	money in circulation + money on current accounts
M2	Total monetary stock
Nasdaq Composite	US Non-stock Market Shares Index
NACE	Industrial classification of economic activities (an international standardised system)
OECD	Organisation for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PK 30	RM-System index (with the base of max. 30 issues)
p.p.	percentage point

PPS	Purchasing Power Standard
PX 50	The main securities index of the Praha Stock Exchange (with the base of max. 50 issues)
PX-D	BCCP Index, the base of which is made of SPAD marketed issues
PX-GLOB	The total index of Praha Stock Exchange
RM-S	RM-System
SAX	Slovak Stock Market Index
S&P 500	US Stock Market Index
SCP	Securities Centre
SITC	Standard International Trade Classification
SPAD	System supporting the share and debentures market
TPCA	Toyota Peugeot Citroën Automobile
VSPS	Labour force sample survey
WIG	Polish Stock Market Index

INTRODUCTION

Favourable tendencies continued in the development of Czech economy in 2005. Their most important expression occurred in **the accelerated growth of the gross domestic product up to 6.0%** (6.9% in the 4th quarter). This was a record-breaking result in the history of the independent Czech Republic. The importance of this information has been in the fact that it is a synthetic indicator interlinking results of all economy sectors. Its size and growth thus provide for the basic information about the economic standard and performance of the country.

The Czech economy got among the fastest growing economies and the performance gap, with the European Union average, has further narrowed. **The gross domestic product per capita reached about 73% of EU-25 in the Czech Republic in 2005** (based on the Eurostat estimate). The comparison with EU-15 countries shows that the Czech Republic got in front of Portugal in this indicator last year.

The convergent pace of the Czech economy has accelerated only during the last two years, when the growth significantly surpassed the EU-25 average that was slowed down by the development within the Eurozone. **The growth in Eurozone was only 1.3%** last year and when it lost dynamics at the year end, it lacked even behind 2004 (the growth of 2.1%). **The slowdown in the German economy, down to 1.1%**, reflected unfavourably in the Czech economy. Exports to Germany increased by only 0.5% last year (while they grew by 23% in 2004). The share of exports to Germany in total exports out of the Czech Republic thus declined by almost three percentage points, down to 33.4%. In spite of that, the European Union countries were the main destinations for the domestic production and they decisively contributed to the fact that the trade balance finished with a surplus.

Other economies within the Central European region also experienced higher growth than the Western Europe, while these results were achieved within different product cost structure existing in these countries. **The Slovak Republic experienced traditionally the fastest growth.** It was by the record-breaking 7.5% in the 4th quarter, while the annual growth was 6%. The growth reflected domestic demand, especially the formation of gross capital. However, the household consumption grew also fast, thanks to the fast development in wages, the improved situation in employment, and cheap credits. In contrast, the economic growth was slowed down by net exports because the fastest growth in imports, when compared with exports, related mostly to deliveries of investment units. Similarly in **Poland**, where the economy rose annually by 3.2%, the main factor of growth was the domestic demand. In contrast, exports contributed to the economic growth, similarly like in the Czech Republic, in Hungary (the growth of 4.1%).

Foreign trade became the main source of growth in the Czech economy. The pace of the total turnover slowed down (because of the outstandingly high dynamics after the accession to EU in 2004), but **the prevailing exports, when compared with imports** became more significant at the same time. Exports of goods and services (in constant prices) increased by 11.1% (21.4% in 2004) and imports grew by 4.8% (18.4%) mostly because of faster development of trade in goods. **The foreign trade in goods** (in current prices) **had achieved the positive balance** for the first time since 1993. The balance reached CZK 40.4 billion (the year-on-year improvement by CZK 66.8 billion).

This result was achieved in spite of **the worse terms of trade**, down to 98.3 because of decreased export prices and the slightly increased import prices. The price development had thus the negative impact on the trade balance within the scope of CZK 46 billion.

From the territorial point of view, trade with developed market economies, especially with EU countries, contributed to the year-on-year improvement in the trade balance. The surplus in the trade

balance there reached almost CZK 280 billion and could cover the deficit from the trade with emerging economies, the CIS countries, and the so-called other than European economies. According to **the commodity distribution**, the trade in machinery and transport equipment (the surplus of CZK 217 billion) traditionally contributed to the favourable development in the trade balance. Its share in total exports increased up to 51%. The inter-annual deepening of the deficit, caused by mineral fuels, went in the opposite direction and the deficit increased by almost one half, to CZK 112 billion (because of the high import prices).

The turnaround in the trade balance deficit, to the surplus, reflected in **the significant fall of the negative balance on the current account in the balance of payments** (from 6.0% of the gross domestic product in 2004 to 2.1% - the lowest deficit level since 1999). This partly corrected the high deficit in the balance of revenues. As direct investments (USD 10.1 billion) generated the surplus on the financial account (4.7% of GDP) at the same time, **the general balance of payments finished positively** (USD 3.9 billion). It had been the best result since 1993 (after the years 2002 and 1995).

Domestic demands' contribution to the economic growth was less significant, when compared with net exports. **The household consumption slowed down the growth down to 2.6%** (in constant prices), especially in relation with the only slightly inter-annually increasing real disposable household incomes (2.8%). There were especially expenditures related to housing increasing, but the share of expenditures connected with luxury goods, to the detriment of basic goods, also progressively increased.

Expenditures related to the formation of gross fixed capital increased by 3.7%. It was also less than in the previous year (5.3%). From the point of view of the retention of dynamics in the further economic growth, it is important that growth in investments still prevailed over the development in the final consumption. The structure of expenditures was also favourable because investments into machinery and equipment (into the transport equipment by 13.4% and in other machinery and equipment by 5.1%) grew faster than investments into buildings and constructions.

Development in other indicators could be also assessed in a positive way. **The price level settled at a low level** and this was proved by the development in the inflation rate. Its level of 1.9% had been the third lowest since 1990, when compared in the long term. Cost pressures, put on the increase in the price level, were only weak and the fast economic growth did not have a negative impact on the price level. **The slower development in wages** also contributed to that (the nominal wages increased year-on-year by 5.5%), especially because enterprises tried to retain their competitiveness.

Industrial production had been already growing for the sixth year in a row in spite of its slowdown to 5.7% (according to the original methodology). There were structural changes in the manufacturing industry continuing. They related to the entry of new foreign investors and to the start of new manufacturing capacities, especially within the automotive industry. Production capacities related to the manufacture of components and spare parts, connected with the automotive industry, also developed and the traditional mechanical engineering also experienced some recovery. At the same time, the growth in technological standard of manufacture was accompanied by **growing labour productivity and increased competitiveness**, which balanced the impact of the strengthening Czech currency. The development in the manufacturing industry thus significantly contributed not only to the growing exports of goods, but also to the execution of some subcontracts related to the domestic production and that decreased import demands.

Construction had been also growing for the sixth year, but it did not avoid the slowdown in the growth dynamics. The slower pace (4.2%) related especially with the high comparison base of the previous year, where the industry development had been significantly affected by the increased VAT rate from 5% to 19% on construction works (from 1 May 2004). Important investment projects in the area of the engineering constructions (freeways, railways, the extended airport capacities, etc.), the construction of shopping and logistical centres, and also housing constructions made the important source for the achieved growth in the construction industry.

The continuing economic prosperity reflected in the **labour market**. There were new jobs created, while the job offers by recently opened multinational companies were especially important. **The level of registered unemployment** progressively inter-annually declined and was 8.9% at the end of the last year. There were 52.2 thousand vacancies at that time, while 9.8 job seekers corresponded to a vacancy (they were 10.6 a year ago).

SUMMARY OF TRENDS IN THE ECONOMIC DEVELOPMENT IN 2005

I. Macroeconomic development

- Growth of the economy significantly accelerated, as **the gross domestic product grew year-on-year by 6.0%** (the growth increased by 4.7% in 2004). The trend of acceleration in the growth dynamics existed also during the year and culminated by the growth of 6.9% in the fourth quarter.
- The year-on-year development in the main expenditure items (in constant prices) differed. Positive trends prevailed, when **the foreign trade made the main source of growth**. Expenditures related to the formation of fixed capital grew faster within domestic demands than expenditures related to the final consumption.
- **The growth in household consumption slowed down to 2.6%** (compared with 3.3% in 2004) and this development basically corresponded with the growth in real incomes of residents. **The increase in the government consumption by 8.0%** (there was the fall of 2.7% in 2004) was influenced by the single inclusion of the Gripen jets purchase.
- **Expenditures related to the formation of the gross fixed capital increased by 3.7%** (by 5.3% in 2004). The fastest growth was experienced in investments into transport equipment (13.4%) and into machinery and equipment (5.1%). The achieved investment growth prevailing over the final consumption is important from the perspective point of view for the retention of fast dynamics of the economic growth.
- The trend of faster growth in exports, when compared with imports, became more pronounced in the development of foreign trade. **Exports of goods and services (in constant prices) increased by 11.1%** (by 21.4% in 2004) **and imports grew by 4.8%** (18.4%) mostly because of faster development in the trade in goods.
- **The share of the service sector increased** (in current prices) **in the branch structure of the gross value added** to 60.5% (from 59.9% in 2004). This was mostly contributed to by the trade with the year-on-year share increase to 13.0% (from 12.7%) and the financial intermediation to 3.3% (from 3.1%). **The total share of industry increased** to 31.8% (from 31.6%), but the share of the manufacturing industry decreased year-on-year down to 26.1% (from 26.4%). **The share of agriculture fell** to 3.0% (from 3.4%) **and the share of construction decreased** to 6.8% (from 7.0%).
- **The national labour productivity** (the gross domestic product per worker) **increased year-on-year by 5.1%** (by 4.6% in 2004). The growth accelerated during the year and achieved 5.5% in the 4th quarter.
- **The number of the Czech Republic residents** reached 10 251.1 thousand people at the end of 2005. That **meant the year-on-year increase** by 30.5 thousand. The positive balance of foreign immigration (36.2 thousand) was higher than the population decline resulting from the higher number of deaths, when compared with the new born.
- **The number of economically active persons (the workforce)** increased year-on-year by 41.7 thousand people to 5 174.2 thousand people because of the higher number of employed persons and the fall in the number of unemployed ones. **The economic activity rate**, i.e. the number of

economically active persons to the number of all people older than 15 years of age ratio, increased by 0.2 point to 59.4%. **The employment rate**, i.e. the number of people with a single or main employment to the number of all persons older than 15 years of age ratio, increased by 0.4 point to 54.7%.

- **According to the sample survey by CZSO, the number of workers in the national economy**, in a single (main) employment, **increased** by 57.4 thousand, i.e. by 1.2% to 4 764 thousand people. Employment in the secondary sector (industry and construction) increased by 35.9 thousand, to 1 880.5 thousand, and in the tertiary sector (services) by 34.1 thousand, to 2 692.6 thousand workers. In contrast, employment fell in the primary sector (agriculture, forestry, and fisheries) by 12.8 thousand, down to 189.5 thousand people. **According to the position within the main employment, the number of employees grew** by 89.3 thousand, to 3 979.5 thousand. In contrast, the number of enterprising sector workers decreased by 28.6 thousand, down to 763.2 thousand people.
- Total **number of foreigners employed** in the Czech Republic **increased** year-on-year by 43.7 thousand, to 151.7 thousand people (as on 31 December). In its structure, **the number of registered foreigners increased** by 22.9 thousand, to 96.5 thousand, because of the general economic growth and the new legislature related to the employment of foreigners after the accession to the European Union. **The number of foreigners working with work permits increased** by 20.8 thousand, to 55.2 thousand people.
- **The number of registered entrepreneurs - foreigners increased** year-on-year by 3.1%, i.e. by 2 thousand, to 67.2 thousand people. Total **number of entrepreneurs registered, as on 31 December, as natural or legal persons** increased by 1.1%, i.e. by 22.6 thousand, to 2 005.9 thousand people.
- **The average registered unemployment rate decreased**, when inter-annually compared, by 0.2 point, down to 9%. The unemployment rate was falling during the year, including the seasonal fluctuations, and **reached 8.9% on 31 December**, when it was lower by 0.6 point, compared with the situation a year ago. **The number of job seekers decreased** year-on-year by 31.3 thousand people, down to 510.4 thousand people at the end of the year. The number of unemployed women fell by 10.6 thousand, to 265.6 women, but their share in the total number increased by 1 point, to 52%.
- The average **number of vacancies increased** year-on-year by 9.3 thousand, to 45.6 thousand, in 2005. There were 52.2 thousand vacancies on 31 December (by 1 thousand more y-o-y). There were 9.8 job seekers per vacancy at the year end (10.6 people a year ago). The highest number was in the District of Karviná - 78.1 job seekers per vacancy.
- **The situation by individual regions** showed the highest unemployment rate in the Ústí region (15.4%) and in the Moravian-Silesian region (14.2%). The lowest rate existed in Praha (3.2%). **The situation by individual districts** showed the highest unemployment rate in the District of Most (21.2%), while the lowest rate was in Praha-East (2.5%).
- **The average monthly nominal wage of employees in economic units within the enterprising sector with 20 or more employees** (in banking and insurance industry with disregard to the number of employees) and in all non enterprising sector organisations **increased** by 5.5%, to CZK 19 030. **The real wage increased** by 3.5%. The average **nominal wage of employees in the national economy** (including the small enterprises estimate) **also increased** year-on-year by 5.5%, to CZK 17 864. **The real wage increased** by 3.5%. **The wage demands of GDP increased** year-on-year by 0.2 point, to 29.3%.
- **Consumer prices** had been increasing, up to the annual maximum in October (2.6%), since June, after the significant slowdown in the 1st half year. This related especially to the rising regulated prices of gas and heat. The inflation got close to the values existing at the beginning of 2004 in December with its year-on-year growth of 2.2%.
- **The inflation rate** (the moving average of 12 months) reached 1.9% in December and confirmed the low-inflation environment existing in the domestic economy, and the improved result, when compared with the average existing in EU countries.
- Dynamics in the growth of **industrial producer prices** significantly weakened in 2005, almost by one half (on average down to 3.0% y-o-y). This took place especially because of the slowdown in

price increases in the coke and refinery of oil products industries (to 16.4%) and decreased prices of basic metals, metallurgic and metal-working products (to 6.8%). In contrast, domestic energy resources became more expensive - the prices of coal, lignite, and turf (by 17.3% on average), and the related industry prices of power, gas, and water (by 7.2% on average).

- The long-term favourable situation existing in the construction industry reflected in the development of **construction work prices**. The pace of growth had slowed down since the 2nd quarter (after the disappearance of effects of changes in DPH - VAT), but it remained relatively high (3.0% on the year average).
- **Agricultural producer prices** remained under the previous year level during the year (by 9.2% on average y-o-y). This was mostly because of the significantly decreased prices of plant products (by 25%). The balanced development in prices of animal products contributed to that as well (by 0.4% on average y-o-y).
- The deficit in **the state budget** of 2005, at the level of CZK 56.3 billion (1.9% of GDP), had been the best result since 2002 (after the acceleration in 2003). The state treasury economy developed in the not balanced way during the 1st half of 2005, but this trend changed in June and the accumulated balance presented positive values till November.
- **The budget balance of regions and municipalities** - regions, municipalities, and voluntary groupings - finished with the surplus of CZK 7.8 billion (this includes CZK 0.9 billion of the regions). Their total incomes reached CZK 334.7 billion (the budgetary performance of 98.02%). There were expenditures at the level of CZK 326.9 billion utilised (the budgetary performance of 94.4%).
- **The public budgets** (including net borrowings) achieved the surplus of CZK 0.8 billion (compared with the deficit of CZK 90.7 billion in 2004), in all segments of the government sector, with the exception of the Land Fund of the Czech Republic. The results improved, especially in the National Property Fund and in self-management units. The deficit in public budgets (after the exclusion of net borrowing and subsidies) was CZK 53.7 billion, i.e. 1.8% of GDP (compared with CZK 77.5 billion in 2004).
- **The money supply** mostly retained the trend of slower growth dynamics. It foreshadowed again the return to a higher pace of growth in the 4th quarter (by 8% in December y-o-y, to CZK 1 992 billion). It related to the lowering of the decrease in net borrowings by the government.
- **Credit** demands of the business sectors and also of households further increased the high pace of growth (up to 20% y-o-y, to CZK 1 067.4 billion). **Loans to the business sector** dynamically accelerated (by 13.1% in December y-o-y, up to CZK 649.6 billion). **Loans to households** retained the significant growth (by 32.5% y-o-y, to CZK 417.8 billion).
- **The Czech currency (crown)** retained the appreciation trend towards both referential currencies on average during 2005, but the appreciation towards the euro slowed down (to 6.6% y-o-y) and it even weakened towards the dollar at the year end (it appreciated by 6.8% y-o-y).
- **The total balance of payments** was positive (CZK 92.9 billion, i.e. USD 3.9 billion) and had been the third best since 1993. The balance of payments was dominated by **direct investments** (CZK 242.7 billion, i.e. USD 10.1 billion). They generated the surplus on **the financial account** (CZK 137.9 billion, i.e. USD 5.8 billion and 4.7% of GDP). **The balance of trade** (CZK 40.4 billion, i.e. USD 1.7 billion and 1.4% of GDP) participated in the deficit on **the current account** (CZK 61.7 billion, i.e. USD 2.6 billion and 2.1% of GDP). Its change towards black numbers partly corrected the high deficit in **the balance of incomes** (CZK 142.3 billion, i.e. USD 5.9 billion).
- **The foreign currency reserves** mostly grew and reached CZK 726.7 billion at the end of 2005, i.e. USD 29.6 billion. They covered 4.2 monthly imports of goods and services, while 3 months coverage is considered safe.
- **The gross indebtedness** confirmed the long-term trend of growth, when it increased to CZK 1 125.9 billion (USD 45.8 billion) at the end of December. It further increased year-on-year by 11.3%, i.e. by CZK 114.1 billion. **The level of foreign debt made up 38.4% of GDP** and remained under the generally considered „safe“ level of 40%.
- **The foreign direct investments increased by 105.9% year-on-year**. Their volume of CZK 263.2

billion (i.e. about USD 11 billion) was the second highest in the history of the Czech Republic (since 1993). The investment growth continued in industries achieving a higher value added.

- **The highest volume** of foreign direct investments (94.1%) **originated in EU-25 countries**, namely in Spain (44.7%), the Netherlands (18.1%), and Germany (10.1%). The biggest part of these investments went to **the transport and telecommunication industries** (45.1%) and to properties and services provided to businesses (17.7%).
- **MIT decided on investment incentives** for 57 companies and **on the support of investment plans** of 32 companies in 2005. These companies were going to build 21 technology centres and 11 strategic service centres in the Czech Republic.
- **The scope of direct investments abroad fell** by about one fifth, down to CZK 20.5 billion (i.e. about USD 0.9 billion).
- The big trend of growth in the domestic stock exchange **PX 50 Index** existing in the 1st quarter was exchanged for a consolidation wave and the consequent unbalanced development. Its historical maximum had been shifted since the 3rd quarter and the year 2005 was finished with the value of 1 473.0 points (the year-on-year growth by 42.7%). The Praha Stock Exchange, with its **volume of trade in shares** (EUR 34.9 billion), became the second biggest stock exchange in the region of Central Europe.
- **Financial results of organisations in the non-financial sector** (with 100 or more employees) improved year-on-year, especially thanks to the 4th quarter of 2005, when the book value added and the gross profit grew above the average. **The selected financial indicators present the following year-on-year development:**
 - **Book value added** slowed down its year-on-year growth from 11.2% to 5.5%. It increased most in services for businesses (by 27.6%), but also in construction (by 7.1%), trade (by 6.8%), industry (by 5.4%), transport, warehousing, communications (by 1.1%), and other services (by 1.6%). It fell in agriculture, forestry, and fisheries (by 5.3%) and in accommodation and catering (by 1.3%).
 - **Labour productivity based on the book value added** (in current prices) increased year-on-year by 4.2%, while employment grew by 1.3%.
 - **Gross profit** fell by 0.3%, down to CZK 262.4 billion. It decreased most in accommodation and catering (by 46.8%), but also in other services (by 20.3%), in transport, warehousing, communications (by 14.4%), and in agriculture, forestry and fisheries (by 12.7%). Its growth was reported only by three industries: Services to businesses (by 34.4%), to CZK 8.3 billion, construction (by 16.2%), to CZK 11.3 billion, and industry (by 3.5%), to CZK 186 billion. The number of losing organisations increased by 19.5% (to 1 017 businesses). Their total loss increased by 47.2%, to CZK 45.8 billion.
 - **Total revenues** grew slower (8.5%) than **total costs** (9.0%). The biggest item - intermediate consumption - increased by 10.1% and its share by 0.5 percentage point, to 53.7%.
 - **Return on equity** fell by 1.1 percentage point, to 12.7%, and worsened in all industries, with the exception of construction and services for businesses.
 - **Stock** slowed down its year-on-year growth from 8.6%, to 4.3%, while the stock of own production increased by 14.7% and the stock of goods by 3.7%. The stock of materials fell by 5.5%. Industry caused the main impact on the growth slowdown - the stock increased there by 3.5%. **Turnover of stock** accelerated by 1.3 day, to 32.3 days.
- **The number of bankruptcy and settlement motions increased** by 6.6%, to 3 882 proposals, while they were falling in previous years. **The number of declared bankruptcies continued in their decrease** inter-annually by 14.2%, to 1 236 bankruptcies. The number of processed bankruptcy proceedings increased by 1.9%, to 4 870 proceedings.

II. Industry

- **Main production characteristics of industrial organisations with 20 or more employees:**

- **The industrial production** was growing **fast** during the last six years. The pace reached 5.7% (9.5% in 2004). The growth resulted from **the entry of new foreign investors and the start of new manufacturing capacities**, especially within the automotive industry and the manufacture related to the automotive industry. The traditional mechanical engineering also recovered. **Revenue from sale of own goods and services** (in constant prices) increased by 8.1% and **the revenue from direct exports** (in constant prices) grew by 10.2%. They participated in the total revenue with 53.6%.
- As for the production structure, according to main industrial groupings, **the manufacture of intermediate products** retained the dynamic development. It resulted in the increase by 10.3% (it was 12.9% in the previous year). In other groupings, **the manufacture of long-term consumption goods** slightly increased by 3.2%, **the manufacture of products with investment character** increased by 3%, **the manufacture of energies** by 2.4%, and **the manufacture of short-term consumption goods** by 2.2%.
- Development in **the manufacturing industry** was influenced by **growing sub sections having a high share of foreign capital** and production determined for exports. The production increased by 6%, the revenue (in constant prices) by 8.4%, and the revenue from direct exports (in constant prices) by 10.2% (they participated in the total revenue with 58%). The high increase was reported by the manufacture of transport equipment - by 19.2%, and the manufacture and repairs of machinery and equipment - by 13.3%. Decline in production took place in the following four sub sections: In the manufacture of leather and leather products (by 4.6%), in the manufacture of textiles, textile products and clothes (by 3.6%), in the manufacture of basic metals, metallurgic and metal-working products (by 2.1%), and in the manufacture of other non metallic and mineral products (by 1.5%).
- **The raw material section** reported **a higher production** by 0.4%, while the revenue was lower by 3.1% (in constant prices) and the revenue from direct exports increased by 23.1% (in constant prices). The production within the **energy section** was lower by 1.2%, while the revenue grew by 7% (in constant prices) and the revenue from direct exports increased by 4.2% (in constant prices).
- The weak economic activities in EU countries reflected in lower growth in **the newly concluded orders**, monitored in selected branches, by 13.8 points, down to 7.3%. That included the decrease in foreign orders by 13.7 points, down to 9.3%. The revenue of these selected branches (in current prices) slowed down the growth by 10.5 points, down to 8.9%.
- **The manufacturing industry increased its share** in total industrial revenue **year-on-year** by 0.3 point to 91.5% to the detriment of the raw material section (the fall by 0.2 point, down to 2.1%) and the energy section (the fall by 0.1 point, down to 6.4%).
- Putting new production capacities into operations in newly constructed industrial zones and the extension of production in the existing businesses reflected in the growing **employment within the manufacturing industry** (by 0.7%), while employment fell in the energy section by 10.6% and in the raw material section by 4.2%. Total employment in industry stagnated (the slight decrease by 0.1%). The big increase by 7% was experienced in the manufacture of transport equipment and in the manufacture of rubber and plastic products (identically by 7.3%).
- Faster growth in the revenue, together with stagnation in employment, reflected in the high **increase in the labour productivity** (by 8.2%), including the energy section (by 19.7%), the manufacturing industry (by 7.7%), and the raw material section (by 1.2%). The labour productivity decreased in the following sub sections within the manufacturing industry: In production of coke, in the refinery processing of oil (by 1.8%), in the manufacture of basic metals, metallurgic and metal-working products (by 0.4%), and in the manufacture of food and beverages (by 0.3%).
- The effort of businesses to remain competitive by lowering of their costs reflected in **the slower**

growth in average nominal wages, which increased year-on-year in industry by 4.6% (by 7% in the previous year). **The real wages** were higher by 2.6%. When recalculated with the consumer price index and with the industrial producer price index, they increased by 1.6%. **The labour productivity grew faster than wages.**

- **Unit labour costs** fell. The **nominal ones** by 3.3% and the **real ones** by 6.1%. Growth in the nominal unit labour costs took place in five sub sections, growth in the real unit labour costs took place in one sub section, and the costs stagnated in one sub section.
- As in the structure of industrial businesses, according to **the institutional sectors, the private enterprises under foreign control** retained their high performance and their revenue increased by 14.9% (in constant prices). Their share in total revenue increased by 2.1 points, to 54.8%. The revenue from direct exports (in constant prices) increased by 11.6% (the share in total revenue was 69.9%) and employment was higher by 7.4%.
- **Gross tangible investments in industry grew by 5.9%** year-on-year (in constant prices), while the growth in machines and equipment (7.8%) was higher than in buildings and structures (4.2%).
- **Investments in the energy industry grew the fastest (by 11.7%). Investments in the manufacturing industry increased by 5.2%** and they participated in total industrial investments with 79.1%. The most volume important industry of transport equipment reported the growth by 9.7%.
- **Intangible industrial investments significantly increased in the manufacturing industry** (by 100.2%) **and in the energy industry** (by 78.3%), especially because of the introduction of emission permits related to glasshouse gases.
- **The total book value added** in industry (including the estimate related to small enterprises up to 19 employees) slowed down its growth from 14.2% down to 5%, while **the intermediate consumption** (9.2%) prevailed over **the output** (8.1%). Results of 2005 were significantly improved by the development in the 4th quarter, when the outputs grew faster than the intermediate consumption.
- **The financial results of industrial organisations with 100 or more employees** developed as follows:
 - **The book value added** (in current prices) rose by 5.4% (by 14.5% in 2004), especially with the high growth in the energy industry (by 15.3%), in the extraction of raw materials (by 8.9%), and in the manufacturing industry (by 3.3%). Outputs grew slower than the intermediate consumption (9.5% to 10.9%).
 - **The labour productivity from value added** (in current prices) slowed down its growth from 15.5% to 4.3%, while employment increased by 1.1%. It significantly increased in the extraction of raw materials (by 14.3%) and in the energy industry (by 23.2%). Employment decreased in both sections. The labour productivity based on the value added increased in the manufacturing industry by 1.3%, while employment rose by 1.9%.
 - **Gross profit** increased by 3.5%, to CZK 186 billion, thanks to the growth in the extraction of raw materials (by 41.8%) and in the energy industry (by 12.3%). It decreased in the manufacturing industry by 2.7%. Almost one quarter of organisations (591 enterprises) reported losses. Their number increased by 16.3% and their losses by 55.4%, to CZK 27.6 billion.
 - **Costs** continued to grow faster (9.4%) than **revenues** (9%). In the cost structure, only the share of the intermediate consumption increased by 0.9 percentage point, to 69%.
 - **Return on equity** declined by 0.8 percentage point, down to 14.6%. It decreased in the manufacturing industry by 1.7 percentage point, to 16.2%, slightly in the energy industry (by 0.5 percentage point) to 10.5%, while it increased in the extraction of raw materials by 7.9 percentage points, to 20.9%.
 - **Total stock** grew year-on-year by 3.5% to CZK 263.5 billion. The stock rose in the manufacturing industry by 7.1%, in the extraction of raw materials by 24.9%, and it decreased in the energy industry by 55.4%. In the stock structure, only the own produced stock increased (by 14.5%), while the stock of materials decreased by 5.5% and the stock of goods by 2.2%. **The stock turnover** accelerated by 2.1 days, to 36.1 days.
 - **Private national enterprises** improved their financial results. For example, the book value added

increased by 7.3% and the gross profit grew by 16.9%. **Enterprises under foreign control** reported the slowdown in some indicators. The book value added grew by 2.1%, while the gross profit fell by 7%.

III. Construction

- **Construction slowed down its year-on-year pace of growth** by 5.5 percentage points, **to 4.2%** (in constant prices). Investment projects in the area of engineering constructions (especially of the transport infrastructure), the construction of shopping and logistic centres, and housing constructions were the main sources of growth during the monitored period.
- The production characteristics of **the construction businesses with 20 or more employees** show the following:
 - **Construction works** (in constant prices) **grew by 5.1%**. New constructions, reconstructions, and modernisations increased by 6.5%, while the works on repairs and maintenance fell by 5.8%.
 - **Construction works abroad grew fast by 17.9%**, but with the minimal share in the total volume of construction works (1.6%).
 - **Labour productivity** in construction, according to providers' contracts (S) **grew year-on-year by only 0.2%** (in constant prices), while **the average real monthly wages** (recalculated with the construction works' index) **increased by 3.8%**. This led to **the growth in nominal unit labour costs** by 3.6% and **in real unit labour costs** by 0.6%. **Employment grew by 4.9%**.
 - The labour productivity developed in the more favourable way, when expressed on the basis of basic construction extracting the subcontract effects. The year-on-year **growth in the basic construction** by 11.5% (in constant prices) **meant the increase in the labour productivity by 6.3%** after the calculation.
 - **The number of issued building permits fell** year-on-year by 7.0%, down to 142 941 ones, while **the orientation value of constructions rose by 3.4%** to CZK 325.8 billion. **The average value of one building permit increased by 11.1%** to CZK 2 279 thousand.
- **Housing constructions continued in its fast development**, thanks to advantageous interest rates on housing mortgages, the increasing number of loans based on housing savings, and the support of young families, when purchasing their first home.
- **In total construction industry** (including the estimate of organisations with up to 19 employees) experienced **the slowdown in the growth of book value added** from 5.5% in 2004 down to 4.2% in 2005. Total outputs of the construction industry reported the year-on-year increase of 7.6%, while the intermediate consumption prevailed over the increase with 8.5%.
- Selected financial indicators developed in **constructing organisations with 100 or more employees** as follows:
 - **Book value added increased** by 7.1% (by 5.2% in 2004). The intermediate consumption by this group of enterprises grew faster than outputs. The labour productivity based on value added increased year-on-year by 5.3%, to CZK 562.9 thousand, while employment grew.
 - **Gross profits improved** by 16.2%, to CZK 11.3 billion. Their growth was influenced by the net surplus from operations (55.3%) and the improved balance of other revenues and costs (45.7%). **The share of losing enterprises decreased** by 2 points, down to 14.3%, while their losses increased by 47.3%, to CZK 851 million.
 - **Growing costs** (by 10.8%) were influenced mostly by the intermediate consumption, which increased by 12.3%. It thus increased its share in costs by 1.1 point, to 80.6%. The share of

services grew in the intermediate consumption in the long-term to the detriment of materials and energy.

- **Own resources of enterprises increased** by 15.8% and prevailed over the investment resources more than twofold. Businesses invested CZK 7.2 billion, i.e. by 12.9% more inter-annually, in purchases of long-term tangible and intangible assets.
- **Stock declined** year-on-year by 1.1%, when the own produced stock decreased by 2.2%. The stock turnover period accelerated by 2.4 days, to 21 days.
- **Private national enterprises** improved inter-annually their financial indicators. For example, the book value added by 10.1% and the gross profits by 22.3%. Enterprises under foreign control reported some worse indicators, but the labour productivity level based on value added was better by one fifth there.

IV. Foreign trade

- Results of foreign trade significantly influenced the general economic development, especially with **their support** of GDP growth. The fundamental **economic importance** results **from the high share of the exported goods value in the gross domestic product**. This share was, in current prices, 64% and in imports 62.6% (i.e. the year-on-year improvement in exports by 1.8 percentage points and, in contrast, the weakening of the share of imports by 0.6 point).
- **Foreign trade had finished with the surplus in balance of trade**, at the level of CZK 40.4 billion (the year-on-year improvement by CZK 66.8 billion), for the first time since 1993. **The turnover** achieved CZK 3 710.1 billion (the year-on-year growth by 6.9%). **Exports** grew faster than **imports** (8.9% to 4.9%). The coverage of imports by exports improved year-on-year by 3.7 points, to 102.2%.
- **The terms of trade** progressively worsened during the year to 98.3 (in 12 months on average) because of **declining export prices** (by 1.4%), while **the import prices slightly increased** (by 0.3%). The development in prices influenced the balance of trade in a negative way within the scope of about CZK 46 billion. When recalculated to **constant prices**, the growth in both exports and imports was higher than in current prices. Exports increased year-on-year by 12.4% and imports by 5.8%.
- **Value results expressed in crowns** were influenced by **the year-on-year strengthening of the crown towards both dollar and euro** (by 6.8%, by 6.6% respectively). That was the reason why the exports and imports' dynamics, expressed in USD and EUR, were almost identical and about two times faster than in crowns (the exports growth in dollars and euros were 16.5% and imports 12.2%). Exports reached USD 78.3 billion (EUR 63 billion) and imports reached USD 76.6 billion (EUR 61.7 billion). The positive trade balance was USD 1.7 billion and it was thus better year-on-year by USD 2.8 billion. The balance in EUR was 1.3 billion and the year-on-year improvement was better by EUR 2.2 billion.
- **Total exports** increased year-on-year by CZK 152.6 billion and they increased in all territorial groups, even if in different paces. **The increased exports to advanced market economies participated in the increase** with three fourth in spite of the fact that the growth was considered below average (7.4%, 6.6% to EU). **CIS countries participated in the increased imports** (worth CZK 85.8 billion) with one half, thanks to the significant increase in crude oil and gas imports from Russia.
- Trade with advanced market economies, where the positive balance increased by one half to CZK 218.3 billion, contributed to **the change from the deficit (in 2004) to the surplus trade balance**. The surplus from the trade with advanced market economies covered the loss incurred in the trade with CIS (CZK 83.8 billion), with other than European countries (CZK 88.7 billion), and developing countries (CZK 36 billion). **The surplus in the balance of trade with EU reached the record level**

of **CZK 278.1 billion** (i.e. the increase by CZK 53.7 billion), while it was almost seven times higher than the total trade surplus. The increase was contributed to especially by the trade with France, Slovakia, Great Britain, Italy, and Spain.

- From the **commodity structure** point of view, **machines and transport equipment strengthened their dominant position**, especially thanks to their share in exports (51%), while their share in imports weakened by 2 points, down to 40.3%. The surplus trade balance increased year-on-year by more than one half, to CZK 217 billion. **The deepening of the deficit in trade in mineral fuels balance** (by CZK 40.2 billion, to CZK 112.4 billion) acted against an **even better result**. The deficit related to **chemicals** decreased by CZK 5.9 billion (to CZK 85 billion) and to **food** by CZK 3.4 billion (to CZK 21.3 billion).
- **In the structure of imports, according to the assumed way of use**, the share of imports for manufacturing increased by 1.3 percentage points to 50.5% to the detriment of investment use, where the share weakened to 27.5% because of the year-on-year decline. The share for personal use negligibly increased to 22%.
- **The share of HI-TECH products slightly increased in exports** (by 0.2 percentage point) to 12.3%, while also slightly weakened in **imports** (by 0.6 percentage point) to 14.5%. The deficit related to these products fell year-on-year by one third, down to CZK 36.6 billion, while exports increased by 10% and imports by 1% (the dominant export component belonged to the computing technology and the dominant import component belonged to electrical engineering and telecommunication products).
- From the structure point of view, **the level of processing of imports** was strengthened by the lower level of processing (by 2.2 percentage points, to 22%) to the detriment of higher level processed products, which fell to 78%. The share in exports did not change (products with a higher level of processing participated in exports with 87.4%).

V. Internal trade and household consumption

- **Total revenue from sales of goods and services** reached the volume of CZK 2 746.9 billion in current prices without DPH (VAT) and **increased by 5.3%** year-on-year. The revenue increased at different levels in all trading areas. **The highest increase took place in the automotive segment** (by 7.9%) **and in wholesale** (by 5.8%), while the increase was the lowest in **retail** (by 2.6%).
- **Outputs** increased in the trade generally by 4.8%, when **the intermediate consumption** grew by 4.6% and **the book value added** by 5.0%. The trading margin participated in the outputs with 62.0% (63.5% in 2004).
- **The average trading margin** within the entire industry decreased year-on-year by 0.4 percentage point, to 15.5%. The margin fell year-on-year in the wholesale trade by 0.7 percentage points, to 13.7%, and it increased in the retail trade by 0.1 percentage point, to 21.9%. The margin remained at the value of 10.3% (no change) in the automotive segment.
- **Big commercial enterprises** with 100 or more employees **increased** their share in **the total revenue** to 33.8%. The **concentration process continues in different ways** in individual trade areas. The share of big businesses in **the retail trade continues to grow** by the same pace and it reached 43.1%. Other trading areas experienced a slowdown.
- **Multinational businesses** developed within the group of trade organisations with 100 or more employees and their share in the industry revenue reached 57.6%. **They had the strongest position in the retail trade**, where they achieved almost 80% of the revenue volume reached by large businesses with 100 or more employees.

- **The physical sale volume** in the retail trade (NACE 52) and in the automotive segment (NACE 50) **increased year-on-year by 3.8%** (by 2.5% in 2004), when especially **the revenue of the automotive segment grew significantly by 4.1%** (by 1.5% in 2004). **The retail trade** increased the revenue by 3.7%, i.e. by 0.7 percentage point - faster than a year ago. The physical sale volume **had been increasing** without interruption since the beginning of 1999 - already for the seventh year in a row.
- **Current incomes** of the household sector increased year-on-year by CZK 104.5 billion, i.e. by 4.8%, and reached the volume of CZK 2 273.0 billion. The year-on-year **pace of growth in current incomes** within the household sector, in current prices, had been permanently **slowing down** since 2002. It was 6.4% in 2002, 5.9% in 2003, and 5.3% last year.
- **Disposable income** determined for the coverage of consumption, or for savings, reached CZK 1 521.6 billion. This meant the year-on-year increase by 3.8%, or 2.8% in the real expression. The growth in disposable incomes was slowed down by **the increased share of current expenditures** (from 32.4% of total incomes in 2004 to 33.1% in 2005).
- The paces of growth in **the household consumption and in disposable incomes** balanced after the previous years, when the pace of household consumption prevailed over the disposable incomes. This fact reflected in the year-on-year **increase in savings and in the stopping of the declining trend in savings**.
- **The saving rate** (the volume of gross savings to disposable incomes ratio) increased year-on-year by 0.25 percentage point, to 7.79%. However, the saving rate **was permanently declining** from the long-term point of view (from more than 10% achieved in the second half of 1990s).

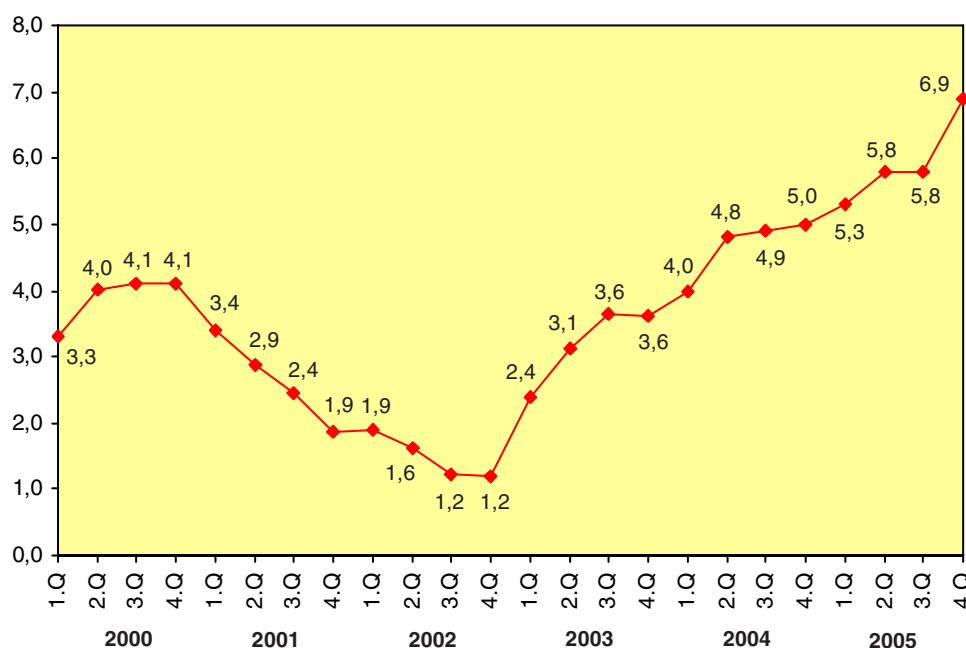
I. MAIN TENDENCIES IN THE MACROECONOMIC DEVELOPMENT IN 2005

I.1. Performance of the economy

In 2005, the economic growth significantly accelerated and **the gross domestic product increased year-on-year by 6.0%** (by 4.7% in 2004). The trend of acceleration in the growth dynamics took place also during the year. While the economy grew by 5.3% in the 1st quarter, the rate increased **to 6.9% in the 4th quarter**.

*Growth in GDP
achieved the record-
breaking level...*

Graph No. I.1.1 Gross domestic product (the y-o-y change in %, constant prices)



Source: CZSO, MIT Graph

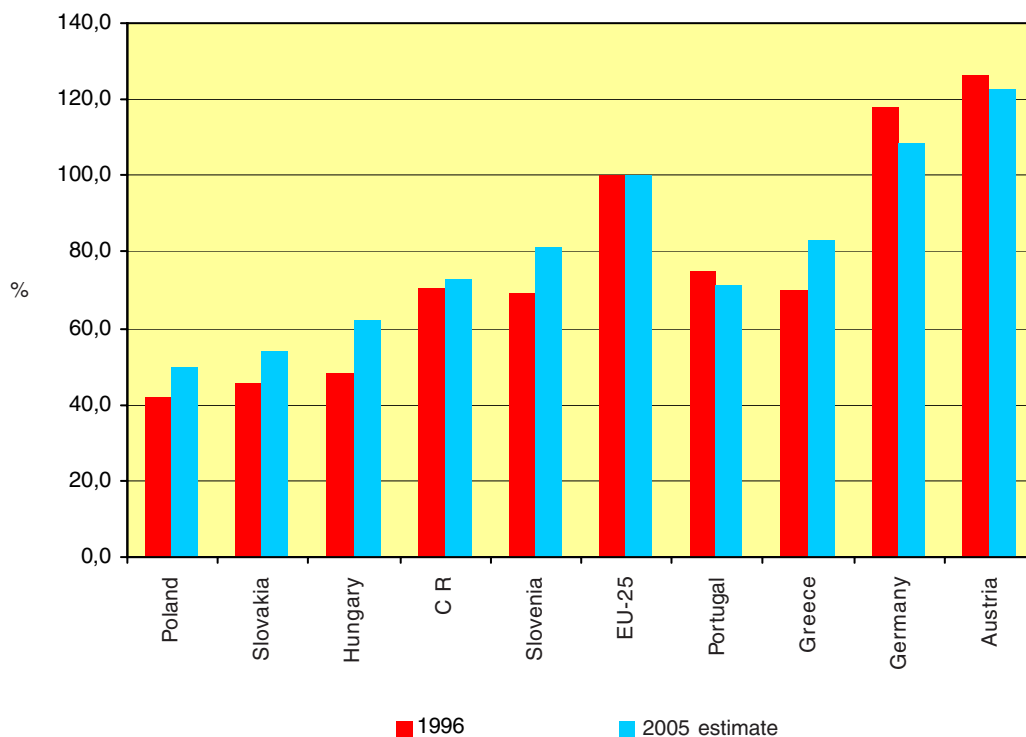
The fast growth of the Czech economy made the performance gap narrower, when compared with the average in the European Union. **The gross domestic product per capita** (in the purchasing power parity) in the Czech Republic **reached about 73% of that in EU-25 in 2005** (according to Eurostat) and, when compared with EU-15 countries, the Czech Republic got in front of Portugal in this indicator.

*... and improved the
domestic economy
performance to the
EU one ratio*

The Czech Republic approach to the level existing in the European Union went basically through two different stages during the last ten years. In 1996, the Czech Republic reported the highest GDP value per capita of all former communist countries in the Central and Eastern Europe, but it lost this position immediately in the following year to Slovenia. The main cause was the recession in the domestic

economy resulting in the progressive performance slump per capita, down to 63.8% of the EU-25 level in 2000. The consequent recovery in the Czech economy led to a turnaround in the development that was characterised, at the beginning, by only a slight approach to the economic performance in EU. **The convergent pace got faster only in the last two years** and the growth in the Czech economy accelerated (and got significantly in front of that in EU-25, which was slowed down by the development in the Eurozone).

Graph No. I.1.2 Gross domestic product per capita (in % of PPS, the average in EU-25 = 100)



Source: Eurostat, MIT graph

Both nominal and real products grew basically at the same paces

The gross domestic product in current prices reached the volume of CZK 2 931.1 billion in 2005, i.e. the year-on-year increase by 5.9% (by 8.3% in 2004). The slowdown in the pace of the nominal product related to the development in prices. While the total price level increased by 3.4% in 2004 (expressed with the implicit GDP deflator), the level stagnated year-on-year in the last year (it fell by 0.8% in the 4th quarter). This stagnation resulted from the slight growth in consumer prices and producers' prices that was compensated by the faster fall in prices of exported goods and services (-2.6%), when compared with imports (-0.4%).

The decrease in the foreign trade terms meant that the year-on-year improvement in the balance of foreign trade in current prices was less pronounced than that of in constant prices and had a negative impact on the development in the nominal gross domestic product. The indicator of the real gross domestic income, which includes the impact of foreign trade terms in constant prices, increased by only 4.2% last year. This was significantly less than the real gross domestic product.

Growth was based on the favourable structure...

The year-on-year development in main expenditure items (in constant prices) varied. Positive tendencies prevailed, when **the foreign trade made the main source of growth**. Expenditures related to the formation of fixed capital grew faster within the domestic demands than the final consumption.

... when the dynamics

Growth in the household consumption slowed down to 2.6% (3.3% in 2004) and

this development basically corresponded with the increase of 2.8% in the real disposable incomes (the growing borrowing of the population also reflects in the development). **The growing government consumption, by 0.8%** (the decrease by 2.7% in 2004), was influenced by the single inclusion of the purchase of Gripen jets.

in the final consumption...

Expenditures related to the formation of gross fixed capital increased by 3.7% (by 5.3% in 2004), while investments into transport equipment grew the fastest (13.4%), followed by investments into machinery and equipment (5.1%). The achieved prevailing investment growth, when compared with the final consumption, was important from the point of view of the perspective for the retention of fast dynamics in the economic growth.

... prevailed over the investment expenditures...

However, the fast economic growth mainly reflected results of the external sector, the development of which highlighted **the trend of faster growth in export, when compared with imports**, while the pace of the total turnaround slowed down (because of the outstandingly high dynamics after the accession to EU in 2004). Exports of goods and services (in constant prices) increased by 11.1% (by 21.4% in 2004) and imports grew by 4.8% (18.4%) mostly because of the faster development of trade in goods.

... and especially the exports of goods and services

The manufacturing industry significantly participated in results of the foreign trade. New manufacturing capacities, especially in the automotive industry and in the manufacture of electrical instruments and machines, together with the increased competitiveness reflected in exports. The fact that the import demands lowered, because of supplies of the domestic production, also contributed to the better trade balance.

The trade in goods participated in the better year-on-year balance of foreign trade more

The balance of trade in goods and services (in current prices) **finished with the surplus of CZK 61.4 billion** (compared with the deficit of CZK 13.1 billion in 2004) and reported the year-on-year improvement by CZK 74.5 billion (the included balance of trade improved by CZK 66.8 billion).

Table No. I.1.1 Aggregate demand and its components in 2005

	Current pr. in billion CZK	Y-o-y change in % (constant prices)		
		2004	2005	4th Q. 2005
Final consumption	2096.8	1.5	2.0	1.6
- households	1421.9	3.3	2.6	2.6
- government	657.2	-2.7	0.8	-0.6
- non profit organisations	17.7	11.3	1.9	0.8
Gross capital formation	772.9	7.9	0.1	4.5
- fixed capital	773.9	5.3	3.7	4.2
Exports of goods and services	2134.8	21.4	11.1	10.4
- goods	1875.2	23.1	12.4	12.6
- services	259.6	10.8	2.3	-5.5
Imports of goods and services	2073.5	18.4	4.8	4.4
- goods	1834.9	19.8	5.9	6.1
- servicesb	238.6	9.0	-3.1	-8.1
Gross domestic product	2931.1	4.7	6.0	6.9

Source: CZSO

Note: There some inaccuracies in the sums due to rounding of the sums.

The gross value added increased in real terms by 6.6% **on the supply side of the economy**, while the fastest growth was reported by the industry of electricity supply (14.1%), by the manufacturing industry (10.8%), and by trade (10.6%). Total of

Mainly industry contributed to the growth in the real gross value added...

the industry covered more than one half of the year-on-year increase in the gross value added.

... however, when expressed in nominal terms, the development in the service sector was faster

The share of the service sector, within the industrial structure of the gross value added (in current prices), **increased** to 60.5% (from 59.9% in 2004). Trade contributed to that with its share year-on-year increase to 13.0% (from 12.7%). The financial intermediation contributed 3.3% (from 3.1%). **The total share of industry increased** to 31.8% (from 31.6%), but the included share of the manufacturing industry decreased year-on-year down to 26.1% (from 26.4%). **The share of agriculture fell** down to 3.0% (from 3.4%) and **that of the construction fell** down to 6.8% (from 7.0%).

The product growth was decisively the result of higher productivity

The labour productivity in the national economy (the gross domestic product per worker) **increased year-on-year by 5.1%** (by 4.6% in 2004). The growth accelerated during the year and achieved 5.5% in the 4th quarter.

I.2. Labour market

The growth of population continued

The population had started to grow in 2003 after almost a decade long decline. The reported number was 10 251.1 thousand people at the end of 2005 and **it was higher** by 30.5 thousand year-on-year. Despite the fact that the number of new born children had grown since 2002, the **foreign immigration was still decisive** for the development. The foreign immigration brought to the country 36.2 thousand people during the year.

The number of economically active people increased

The number of economically active people (the workforce) increased by 41.7 thousand to 5 174.2 thousand after the stagnation in the last two years, according to the labour force sample survey by CZSO organised in 2005. The increase reflected the growing number of employed people and the decline in the number of unemployed ones (see Table No. I.2.1). **The economic activity rate** (the number of economically active people to the number of all people older than 15 years of age ratio) **increased** year-on-year by 0.2 point, to 59.4%, and **the employment rate** (the number of people with a single or main job to the number of all people

Table No. I.2.1 Economic activity of the population (in thousand people)

	Year			Share in %		Change (2005-2004)	
	2003	2004	2005	2004	2005	Absol.	in %
Population. 15 years or older	8 636.9	8 673.3	8 716.0	100.0	100.0	42.8	0.5
– labour force	5 132.3	5 132.5	5 174.2	59.2	59.4	41.7	0.8
– employed	4 733.2	4 706.6	4 764.0	54.3	54.7	57.4	1.2
– unemployed	399.1	425.9	410.2	4.9	4.7	-15.7	-3.7
– econ. inactive	3 504.6	3 540.8	3 541.9	40.8	40.6	1.1	0.0
– thereof: old-age pensioners	1 804.5	1 818.8	1 823.5	21.0	20.9	4.7	0.3
disability pensioners	296.3	308.1	310.3	3.5	3.6	2.2	0.7
apprentices	138.5	129.7	125.4	1.5	1.4	-4.3	-3.3
secondary school students	365.8	378.5	385.7	4.4	4.4	7.2	1.9
students of universities	216.7	239.1	256.9	2.7	3.0	17.8	7.4
persons staying at home	327.8	326.3	316.5	3.8	3.6	-9.8	-3.0
other	355.0	340.3	323.6	3.9	3.7	-16.7	-4.9

Source: CZSO - Labour force sample survey

older than 15 years of age ratio) **increased** by 0.4 point, to 54.7%. **The number of economically non active people slightly increased** year-on-year (by 1.1 thousand to 3 541.9 thousand). Within this group, especially the number of university and high school students increased.

The number of workers in the national economy (with a single or main job) **increased** year-on-year after the two-year decline, **according to the Labour force sample survey by CZSO**. The number increased by 57.4 thousand people, i.e. by 1.2% to 4 764 thousand people (see Table No. I.2.2). The included share of women was 43.2% (2 058.5 thousand women). **Employment grew in the secondary sector** (industry and construction) year-on-year by 35.9 thousand, to 1 880.5 thousand people. Its share in the total employment increased by 0.3 point, to 39.5%, while it **increased** by 34.1 thousand, to 2 692.6 thousand people in **the tertiary sector** (services). Its share did not change - 56.5%. In contrast, the number of workers **decreased in the primary sector** (agriculture, forestry, and fisheries) by 12.8 thousand people, to 189.5 thousand people (the year-on-year decrease by 0.3 point, to 4% of the total employment).

The economic growth influenced employment in a positive way...

Table No. I.2.2 Employment in the national economy with a single (main) job (in thousand people)

	Year			Share in %		Change (2005-2004)	
	2003	2004	2005	2004	2005	Absol.	in %
Total employment	4 733.2	4 706.6	4 764.0	100.0	100.0	57.4	1.2
I. sector (agriculture, forestry, fisheries)	213.2	202.3	189.5	4.3	4.0	-12.8	-6.3
II. sector (industry and construction)	1 863.4	1 844.6	1 880.5	39.2	39.5	35.9	1.9
Industry total	1 424.7	1 409.0	1 422.0	29.9	29.9	13.0	0.9
– mining and quarrying	53.3	58.6	49.3	1.2	1.1	-9.3	-15.9
– manufacturing	1 294.3	1 274.2	1 296.1	27.1	27.2	21.9	1.7
– electricity, water and gas supply	77.1	76.2	76.6	1.6	1.6	0.4	0.5
Construction	438.7	435.6	458.5	9.3	9.6	22.9	6.3
III. sector (services total)	2656.6	2659.7	2 692.6	56.5	56.5	34.1	1.3
– trade, reparation of motor vehicles and consumer goods'	627.8	630.9	614.8	13.4	12.9	-16.1	-2.6
– accomodation and catering	170.7	174.8	181.7	3.7	3.8	6.9	3.9
– transport, warehousing and communic.	358.8	364.0	359.7	7.7	7.5	-4.3	-1.2
– financial intermediation	96.3	93.6	96.5	2.0	2.0	2.9	3.1
– real estates and hiring, business activ.	284.9	281.5	288.4	6.0	6.1	6.9	2.4
– public admin., defense and social sec.	331.9	322.5	333.2	6.9	7.0	10.7	3.3
– education	287.8	279.0	296.6	5.9	6.2	17.6	6.3
– health and social care, veterinary ser.	306.9	323.6	328.1	6.9	6.9	4.5	1.4
– other public, social and personal ser.	185.1	184.4	189.8	3.9	4.0	5.4	3.0
– other activities	5.2	4.3	3.8	0.1	0.1	-0.4	-7.7
– unidentified	1.2	1.1	1.4	0.0	0.0	0.2	x

Source: CZSO – Labor force sample survey

The increase in the number of workers, **according to positions in the main job**, was influenced especially by the year-on-year **growth in the number of employees** by 89.3 thousand, to 3 979.5 thousand, i.e. to 83.5%. **The number of entrepreneurs**, including their relatives, **decreased** by 28.6 thousand, down to 763.2 thousand people and their share in total employment reached 16%, i.e. by 0.8 percentage point less than a year ago. The loss of people within the business sector, which had been occurring since 2004, resulted from the competition by large companies, from the economy restructuring, and the impacts of the public finance reform.

... and the number of employees grew in its structure

The number of foreigners employed in the Czech Republic **increased** by 43.7

The number of

employed foreign workers, including foreign entrepreneurs, continued to grow

thousand, to 151.7 thousand people year-on-year at the end of the year (see Table No. I.2.3). This increase resulted from the legislative changes related to the existence of European Union citizens in the Czech Republic, and also from the economy growth as a whole. In the structure, **the number of registered people increased**, especially of the European Union citizens, people from the European economic area and Switzerland (by 22.9 thousand, to 96.5 thousand). **The number of work permits** granted to foreigners from other countries also increased (by 20.8 thousand, to 55.2 thousand). The biggest group of foreigners employed on the basis of work permits - workers from Ukraine - increased year-on-year, as on 31 December, by 16.9 thousand, to 38.9 thousand workers.

Table No. I.2.3 Employment of foreign nationals

	Situation on 31. 12.			Share %	Change (2005–2004)	
	2003	2004	2005	2005	Absol.	in %
Total registered	58 034	73 587	96 519	63.6	22 932	31.2
– EU/EEA and Swiss citizens	-	72 840	93 867	61.9	21 027	28.9
– foreigners not requiring work permits	-	747	2 652	1.7	1 905	255.0
Work permits	47 704	34 397	55 207	36.4	20 810	60.5
Total number of foreign nationals	105 738	107 984	151 726	100.0	43 742	40.5

Source: Ministry of Labour and Social Affairs

The number of **foreigners, who worked as entrepreneurs** on the basis of trade certificates increased by 2 thousand, to 67.2 thousand people at the end of the year (see Table No. I.2.4). Total number of **entrepreneurs registered** in the Czech Republic, **as natural or legal persons**, reached on 31 December 2 005.9 thousand, when it increased year-on-year by 22.6 thousand people (by 1.1%).

Table No. I.2.4 Number of entrepreneurs with trade certificates

	Situation on 31. 12.			Change (2005-2004)	
	2003	2004	2005	Absol.	in %
Total entrepreneurs	1 962 868	1 983 285	2 005 882	22 597	1.1
thereof: natural persons	1 726 683	1 736 800	1 751 940	15 140	0.9
legal persons	236 185	246 485	253 942	7 457	3.0
Entrepreneurs - foreigners	62 293	65 219	67 246	2 027	3.1
Share in %	3.17	3.28	3.35	0.07	x

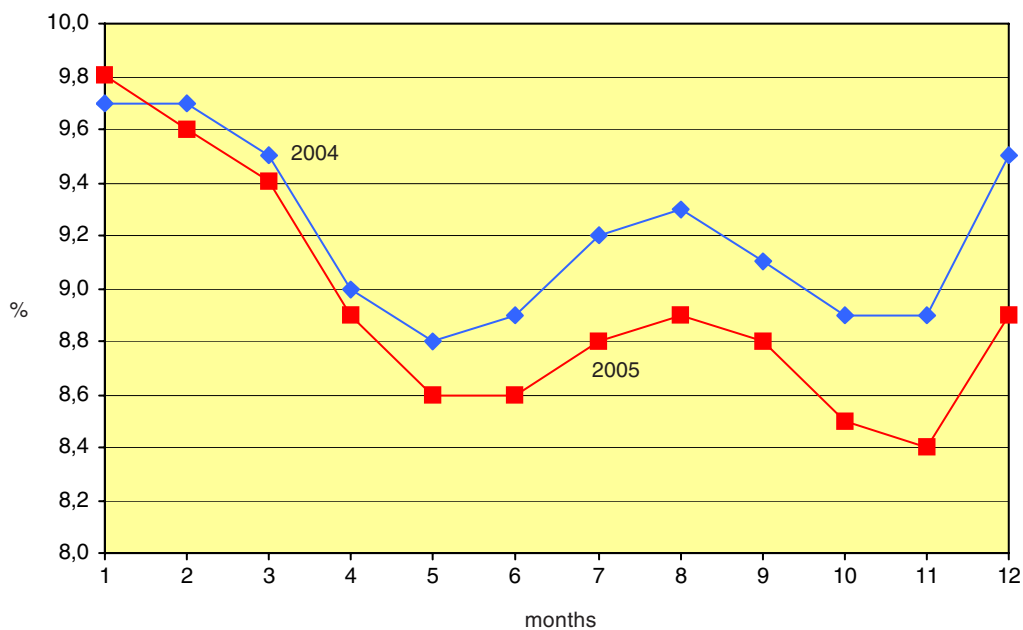
Source: MIT, Trade Register

The situation in the labour market was improving

The average annual **registered unemployment rate had fallen year-on-year** for the first time since 2000. It fell by 0.2 point, to 9%. There were higher dynamics in the economic growth and the utilisation of new instruments of the active employment policy behind this favourable development. The unemployment rate decreased, including the seasonal fluctuations, during the year and **reached 8.9% on 31 December**, i.e. by 0.6 point less than a year ago (Graph No. I.2.1). The registered unemployment rate of women was 10.5% (10.9% a year ago) and that of men 7.6% (8.3%). The increase in unemployment, which took place in December, was caused mainly by the shortage of seasonal works.

By regions, the highest unemployment rate was reported in the region of Ústí (15.4%) and the Moravian-Silesian region (14.2%) on 31 December. The unemployment rate higher than 10% was reported also by the following regions:

Graph No. I.2.1 Registered unemployment rates (in %)



Source: Ministry of Labour and Social Affairs, MIT graph

South Moravia, Karlovy Vary, and Olomouc (see Annex, Table I). The biggest fall in the unemployment rate year-on-year took place in the Moravian-Silesian region (by 1.5 points). **By districts**, the highest unemployment rate existed in the District of Most (21.2%) and the District of Karviná (18.6%) at the end of the year. In contrast, the lowest rate was in the District Praha-East (2.5%) and in the District Praha-West (2.6).

The number of job seekers decreased year-on-year by 31.3 thousand, i.e. by 5.8%, down to 510.4 thousand at the end of the year. This included 481 thousand **available job seekers**, i.e. the people, who could immediately start working if offered a job. **The number of unemployed women decreased** year-on-year by 10.6 thousand, down to 265.6 thousand at the end of the year, but their share in the total number increased by 1 percentage point, to 52%.

There were 141.8 thousand job seekers, i.e. 27.8% of all registered people (26.4% a year ago), on unemployment allowances on 31 December. The average level of the monthly allowance was CZK 4 294 in the 4th quarter 2005. It increased year-on-year by CZK 292.

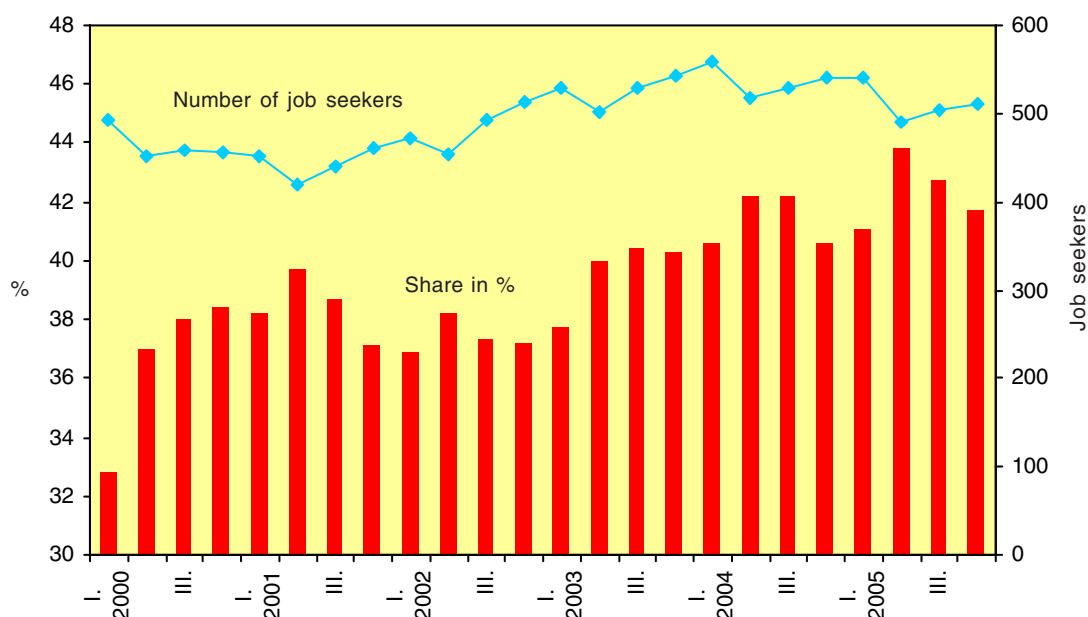
Job Centres **newly registered** 638.2 thousand job seekers in 2005, i.e. by 36.2 thousand fewer year-on-year. There were 669.5 thousand people **checked off from the register**, i.e. by 5.6 thousand less than a year ago. There were 450.9 thousand job seekers successfully placed in jobs, out of their total number, i.e. 67.3% (70.9% a year ago).

The average number of **vacancies increased** year-on-year by 9.3 thousand, to 45.6 thousand.

The biggest group, **according to the unemployment period**, is made of long-term unemployed, i.e. the job seekers unemployed longer than 1 year. The share of this group in the total number of unemployed people increased by 1.2 points, to 41.7%, on 31 December, despite the year-on-year decrease (by 6.9 thousand, to 112.8 thousand unemployed people). Even if seasonal fluctuations are considered, the share of long-term unemployed people in the total number of job seekers permanently grew (see Graph No. I.2.2). The **long-term unemployment rate**, i.e.

the share of the long-term unemployed job seekers in the total workforce, decreased year-on-year on 31 December by 0.15 point, to 3.93% (according to MIT calculation).

Graph No. I.2.2 Share of the long-term unemployed job seekers (in %)



Source: Ministry of Labour and Social Affairs, MIT Graph

Low grow in nominal and real wages

The average monthly nominal wage in companies with 20 or more employees within the enterprising sector (in the finance mediating industry with disregard to the number of employees) and in all organisations within the non enterprising sector increased year-on-year by 5.5%, to CZK 19 030 and **the real wage** increased by 3.5%. The nominal wage within **the enterprising sector** was CZK 19 053. This meant the year-on-year increase by 5.2%. The real wage increased by 3.2%. The nominal wage within **the non enterprising sector** was CZK 18 954. This meant the year-on-year increase by 6.7%. The real wage increased by 4.7% (see Table No. I.2.5).

Growth in the nominal wages, which had been slowing down in a long term, had been the lowest since 1993 and the increase in the real wages had been the lowest since 2000. The growth, which was mainly influenced by the enterprising sector, the employees of which made up more than three quarters of the total number of employees in the national economy, was slower especially because of the low inflation expectations and the effort to retain companies competitive.

Table No. I.2.5 Average monthly wage¹ (y-o-y increases in %)

	2003		2004		2005		Average monthly wage in 2005, in CZK
	Nominal	Real	Nominal	Real	Nominal	Real	
Total:	6.6	6.5	6.6	3.7	5.5	3.5	19 030
thereof:							
– enterprising sector	5.8	5.7	6.9	4.0	5.2	3.2	19 053
– non enterprising sector	9.5	9.4	5.7	2.8	6.7	4.7	18 954

Source: CZSO

¹ In economic units within the enterprising sector with 20 or more employees (with disregard to the number of employees in the finance mediation industry) and in all organisations within the non enterprising sector.

The highest wages, **by sectors** (according to NACE), were achieved in the finance mediation, while the lowest ones were in accommodation and catering (see Table No. I.2.6). The inter-sector wage differentiation, expressed as a quotient of standard deviation of the average wage, increased year-on-year by 0.5 percentage point, to 29.4%, according to MIT calculations. Using **more detailed disaggregation of industries** (according to NACE), the highest wages were paid to employees in the air transport (CZK 44 857), where the year-on-year increase was 15.4%. The lowest wages were paid in the manufacture of clothes and the processing and dyeing of fur (CZK 10 448, i.e. almost a quarter of the highest wages). The difference between the highest and the lowest wages increased, year-on-year, in the mentioned industries by CZK 5 780, to CZK 34 409.

The inter-sector wage differentiation increased

Table No. I.2.6 Ranking of industries, according to the average level of nominal wages (according to NACE - in CZK)

Rank in 2005		NACE categ.	2004	2005	Change (2005 - 2004)	
					in CZK	in %
1	Finance mediation	J	35 426	37 406	1 980	5.6
2	Produc. and distrib. of power, gas and water	E	22 628	24 186	1 558	6.9
3	Mining and quarrying	C	21 152	22 484	1 332	6.3
4	Public administration, defence, social security	L	20 490	22 307	1 817	8.9
5	Real estate, hire, enterprising activities	K	19 581	21 147	1 566	8.0
6	Transport, warehousing and communication	I	19 418	20 579	1 161	6.0
7	Trade, repairs of motor vehicles	G	18 346	19 040	694	3.8
8	Construction	F	18 071	18 963	892	4.9
9	Manufacturing industry	D	17 035	17 825	7 920	4.6
10	Healthcare, social care, veterinary activities	N	16 753	17 529	776	4.6
11	Education	M	16 415	17 184	770	4.7
12	Fisheries	B	15 368	15 986	618	4.0
13	Other public social and personal services	O	14 738	15 622	885	6.0
14	Agriculture and forestry	H	13 146	13 878	732	5.6
15	Accommodation and catering	A	12 998	13 393	395	3.0
	Total Czech Republic		18 035	19 030	995	5.5

Source: CZSO

The average **nominal wage in the national economy as a whole**, including the estimate of small companies, increased year-on-year by 5.5%, to CZK 17 864, and **the real wage** increased by 3.5%. It thus experienced the same dynamics as the wages in companies with 20 or more employees. **The real increase in the volume of wages** (without other personal costs) accounted for payments, which influence the purchasing household strength, reached 4.3%. The relation of the nominal volume of wages with GDP, in current prices, (**the wage demand of GDP**) **slightly increased** year-on-year by 0.2 percentage point, to 29.3%.

The wage intensity of GDP increased only slightly

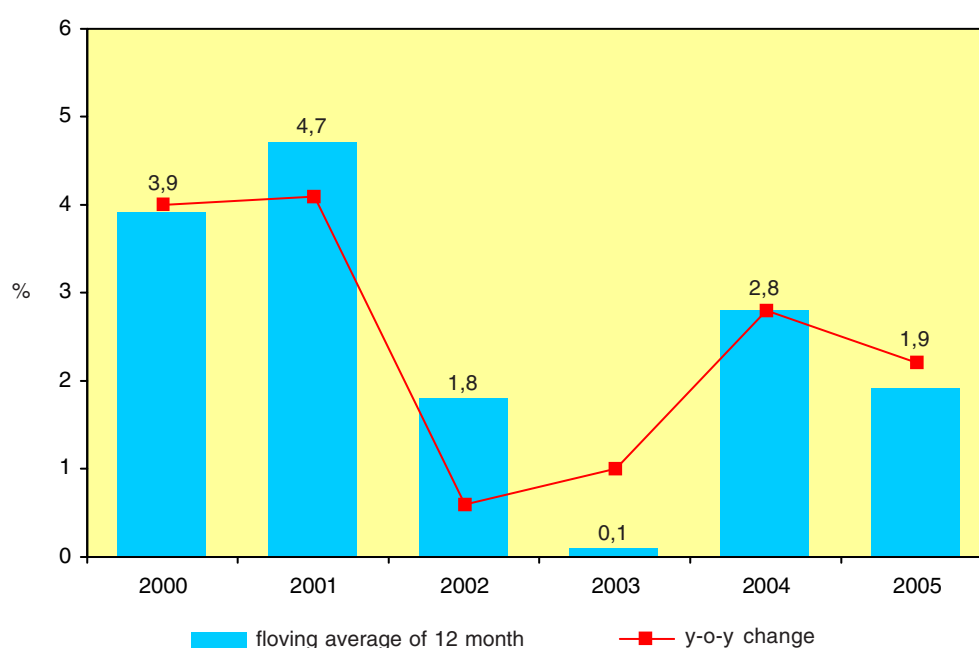
I.3. Price and fiscal policy

I.3.1. Price policy

Low inflation made the background for the development in the Czech economy

The low inflation environment was one of the main features of the development in the Czech economy in 2005. The cost pressure on the increase of the price level was not strong and the intensive economic growth did not influence prices in a negative way, thanks to the mediate household consumption and the slower growth of wages. This was confirmed by **the development in inflation** (the flowing average of 12 months) that had been, in the long-term comparison, **the third lowest since 1990** in 2005 (1.9%), and lower than the average of EU countries.

Graph No. I.3.1.1 Development in consumer prices since 2000



Source: CZSO, MIT Graph

The price level had accelerated its growth since June, after a slower pace in the 1st half year

The trend towards a significant slowdown in the year-on-year growth in consumer prices, which occurred during the first half year, turned in June towards acceleration, which attained the year maximum in October with some smaller fluctuations (by 2.6%, mainly in reaction to the growing regulated prices of gas and heat). The inflation finished at the inter-annual 2.2% in December and approached thus the values existing at the beginning of 2004. **The year-on-year growth in the price level was mostly influenced by one-time adjustments of the prices determined by the administration** (they increased by 8%). The biggest increases related to fuels, energy and water, while prices of other goods and services rose only by 0.5%. In contrast, the development in prices of clothes, shoes, furnishings, household appliances, repairs, but also of food and non alcoholic drinks acted against the inflation.

Prices grew more in Eurozone than in the Czech Republic

When compared with the price development in the European Union, the domestic inflation was very low in 2005. It fell on average by 1 percentage point (see Annex, Table I). While the HICP values (the harmonised index of consumer prices) were above the average of EU countries in the Czech Republic in 2004, the Czech HICP was mostly lower in 2005, with the exceptions of October and

November (when the values were almost identical). The economic growth, which is usually connected with higher inflation, was significantly higher in the Czech Republic than in the Eurozone. The biggest increases in prices took in Latvia (by 6.9%), while the lowest ones were in Finland and Sweden (by 0.8%).

Dynamics in the growth of industrial producer prices strongly weakened during 2005. They decreased by almost one half year-on-year (down to 3%) and that meant that when we assess the price development in a long-term, the growth of prices achieved one of the lowest values in 2005 (see Annex, Table I). **Prices in the coke and refinery of crude oil products significantly influenced the slowdown in the growth of the producers' price level.** Their increases got slower on average to 16.4% (from 27% in 2004) and **the prices of basic metals, metallurgic and metal-working products** fell to the average of 6.8% (from 18.5%). They belong, in contrast, among the biggest driving forces of growth in 2004. Within that framework, the year-on-year decreases of prices of iron, steel and alloys accelerated during the 2nd half year. This meant that these prices increased on average only by 6.4% in the year (40.3% in 2004). Domestic energy resources - prices of coal, lignite and turf - got also more expensive by 17.3% on average and the prices of connected **industries of power, gas and water** increased during the year by 7.2% on average. This growth was by almost one half faster than in 2004 (3.9%). **Food prices** completely changed their development trend during the year - while they belonged to increasing factors in 2004 (with the growth by 4.8%, they fell year-on-year by 1.1% on average in 2005).

Increases of industrial producer prices had started falling fast since October 2004

Declining dynamics in the price increases in industry peaked in December 2005, when they returned into deflation after 26 months (-0.3%). However, there was a turnaround in January 2006 and, after 14 months of the decline in a row, prices started slightly rising again (by 0.3%, by 0.2% in February). This fact could consequently reflect also in consumer prices, even if the interconnection of consumer prices with the prices of industrial producers did not seem high, partly also because a significant part of the production has been determined for exports and the cost pressures have been eliminated so far.

The comparison of the price development of industrial producers in the Czech Republic and in EU-25 shows (see Annex, Table I) **that the dynamics in their year-on-year growth started to speed up again in the 2nd half of 2005.** While prices in the Czech Republic grew faster than in EU-25 at the beginning of the year (by 7.1% in January compared with 4.8%), their increases were almost identical in April, and the prices had started significantly to slow down in their increases in the Czech Republic in the period from May to the end of the year. They increased again in EU-25 (-0.4% in December in the Czech Republic, compared with 6.7%). The difference in the price development, which was quite clear especially during the last two years, was based, inter alia, on the branch structure of the individual economies, the share of entry-intensive industries in the index respectively.

Dynamics in price increases in industry, in the country and abroad, started to differ in the 2nd half of the year

World prices of industrial materials and food had retained high year-on-year increases already for three years and the growth significantly increased in 2005 (by 40.6% in December). They rose on average twofold in 2005, i.e. by further 38.3% (by 18.9% in 2004 and by 17.3% in 2003). **This was the result of the continuing high year-on-year price increases related especially to energy materials, crude oil** (by 45.1% on average), and natural gas (by 47.9% on average). Metal price rises slowed down (to 13.2% on average, after 31.2% in 2004). Main reasons for the price rises remained high demands related to steel and iron, while the high prices of crude oil, and consequently of natural gas, were influenced by the unstable situation in Middle East, by threats of terrorist attacks, and worries related to cyclones and their consequences in their extraction and refineries.

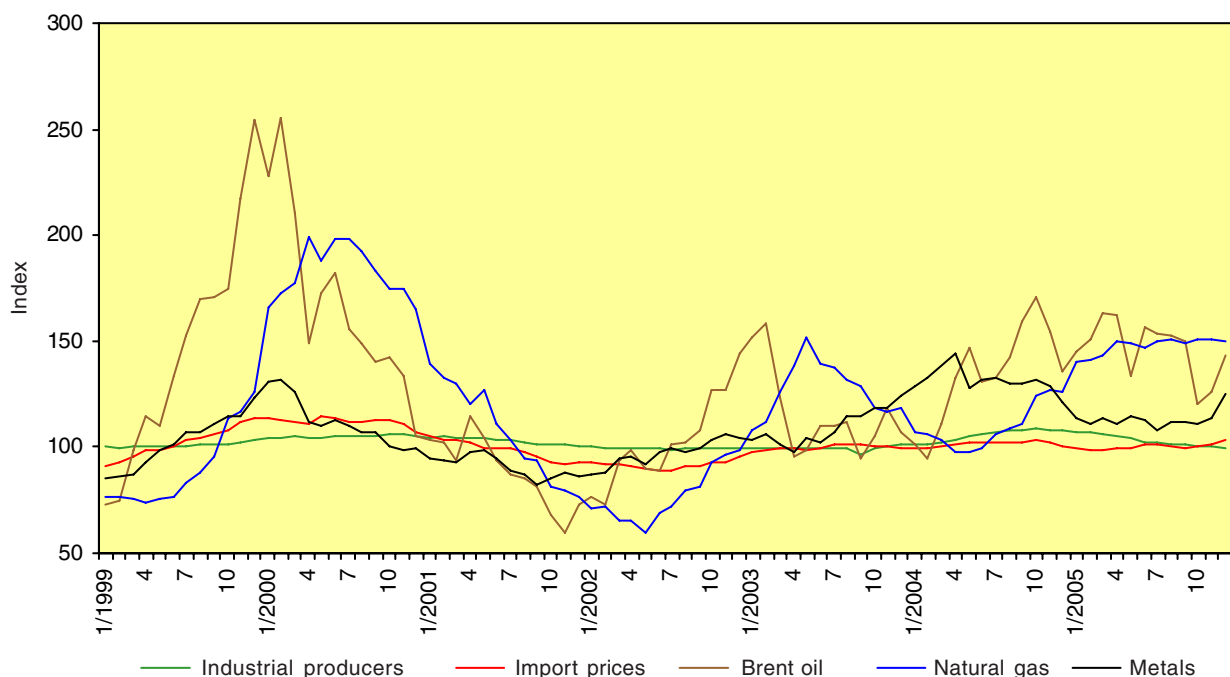
Prices of raw materials and food in world markets have been still high...

Consequently to the development in commodity prices, the trend of the year-on-year decline, accompanying import prices since the beginning of 2005, stopped in May. Import prices reported increases during the following months (with the exception of September) and the increment reached 2.9% at the end of the year. The decline in prices of the 1st half year, however, meant the average annual growth of only 0.3%. The development in import prices was still driven mostly by price rises related to mineral fuels (by 29.2% on average, especially of gas, crude oil and oil products), while it was kept down by the year-on-year appreciation of the Czech crown. Higher rises were prevented by the prices of machinery and transport equipment, which decreased by 4%, and by the prices of different other industrial products (by 7.3%).

... and caused increases in import prices

Graph No. I.3.1.2 indicates that the import prices had followed at first, since 1999, the price increases of energy raw materials, while the metal prices were less influenced. The weight of their group in the index played its role (6.7% - mineral fuels, 3.5% - raw materials). The development in prices of industrial producers was more sensitive to increasing prices of metals, when compared with energy materials, because the second highest weight in the summary index of basic metals, metallurgical and metallic products (12.5%) caused that the prices of producers followed more the development in the entries through outputs of the metal industry.

Graph No. I.3.1.2 Price development in commodities and import and industrial producers (year-on-year change in %)



Source: CZSO, MIT Graph

The favourable situation existing in construction, influenced by high demands related to engineering constructions like freeways, shopping centres, community centres and new apartments, had been, in a long-term, reflected in the development of prices of construction works. The pace of the year-on-year growth in prices of construction works was again relatively high, even if very varied, in individual quarters of 2005. **Price rises of construction works had significantly slowed down, almost by one half, since the 2nd quarter**, but it reflected only the effect caused by the change in DPH (VAT) (the effect of the comparison base of the previous year connected with the reclassification into the lower basic DPH rate). They reached 2.5% at the end of the year (3.0% on the year average). This was the level comparable with the level existing before the DPH increase. Prices

Prices of construction works slowed down year-on-year

Table No. I.3.1.1 Price development in main price areas (year-on-year change in %)

	2000		2001		2002		2003		2004		2005	
	Decem.	Average	Decem.	Average	Decem.	Average	Decem.	Average	Decem.	Average	Decem.	Average
Prices												
– consumer	4.0	3.9	4.1	4.7	0.6	1.8	1.0	0.1	2.8	2.8	2.2	1.9
– industrial producers	5.0	4.9	0.8	2.9	-0.7	-0.5	0.9	-0.3	7.7	5.7	-0.3	3.0
– construction works	4.7	4.0	3.4	4.1	2.1	2.7	2.3	2.2	4.3	3.7	2.5	3.0
– agricultural producers	9.0	9.2	1.8	8.4	-15.6	-9.5	8.0	-2.9	2.4	8.1	-5.2	-9.2
– market services	4.9	3.4	1.7	3.9	3.9	3.2	0.4	1.6	2.8	2.3	1.6	1.9
– imports	6.8	12.0	-7.0	-1.5	-4.4	-8.5	-0.3	-0.3	0.1	1.6	2.9	0.3

Source: CZSO

of materials and products consumed by the construction industry were rising more significantly (by 3.1% on average, compared with 5.8% in 2004) and they reflected the still high prices of metals in world markets.

Prices of agricultural producers continued to fall

Prices of agricultural producers kept under the level of the previous year during the entire year 2005. The year-on-year average was 9.2% mainly because of the big decline in the prices of plant products (by 25%). The biggest shares in the slump belonged to prices of cereals (by 25.1%), potatoes (by 59.7%), oil plants (by 18.1%), and vegetables (by 15%). The balanced development in prices of animal products also contributed to the general slump. Their prices increased only slightly (by 0.4% on average year-on-year), while the development in individual product kinds significantly varied. The reasons behind the low domestic prices were the higher competitiveness after the accession to EU, cheaper imports, and favourable results of the last year harvest.

Table No. I.3.1.1 presents the price development in main price areas

I.3.2. Fiscal policy

The deficit in the state budget was approved at the level of CZK 83.59 billion...

The state budget for 2005 was approved with the deficit of CZK 83.59 billion. It included incomes worth CZK 824.83 billion and expenditures worth CZK 908.42 billion. That meant the lower deficit by CZK 31.39 billion, when compared with the budget of 2004. The government budgetary **priorities were related to the funding of joint programmes with the European Union and expenditures related to science, research and universities.** The approved budget also consequently reflected budgetary provisions (760 in total) that related to transfers in between expenditure items and the budget was also further adjusted, according to the Act No. 1/2005 Coll., with budgetary tax determination without any impacts on the deficit level.

The budget follow up, its year-on-year comparison and dynamics were influenced, beside the above-mentioned Act, by changes resulting especially from the amended DPH (VAT) Act, the Income Tax Act, the new Administration Fees Act, and the amended Act allowing the state tax administration bodies to transfer their savings into their reserves at the end of fiscal years.

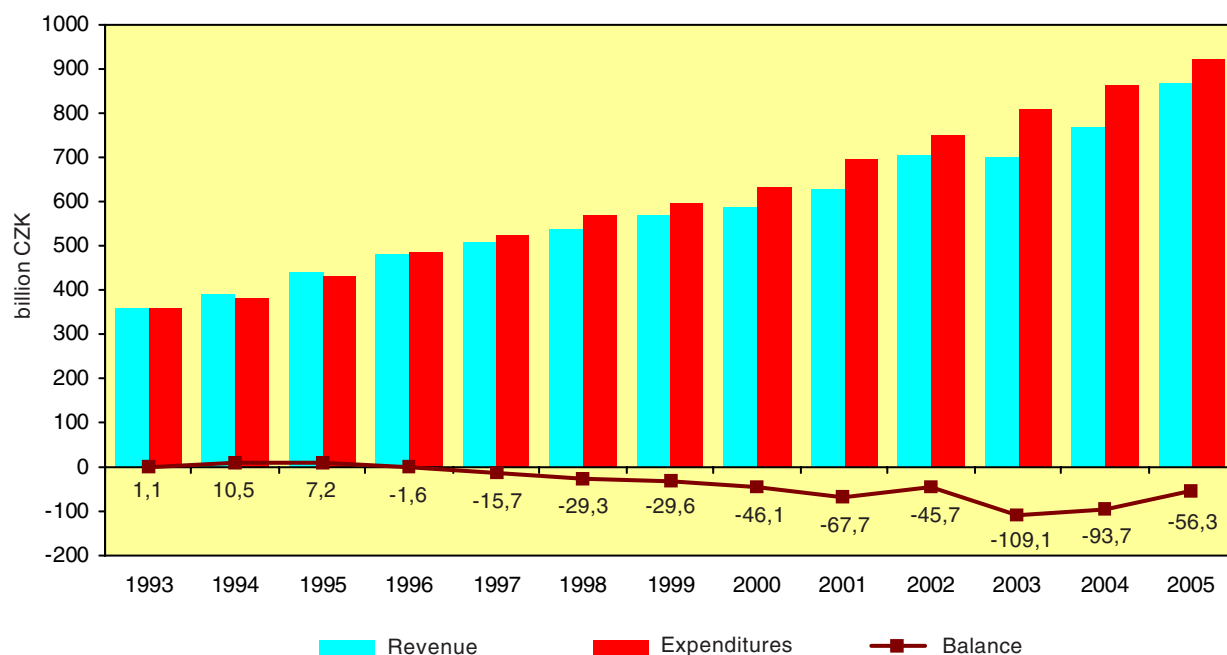
... and its performance significantly improved

The performance of the state treasury developed in a fluctuating way during the 1st half of 2005. This trend changed in June and the cumulative balance had reported, till November, positive values. **The deficit in the state budget of 2005, at the level of CZK 56.34 (1.9% of GDP) had been the best result since 2002** (after the acceleration in 2003), when it finished CZK 27.25 billion below the approved level and CZK 37.34 billion below the level of 2004 (see Graph No. I.3.2.1). **The positive performance of the state budget reflected the high advance of tax and non tax revenue payments, when compared with expenditures.**

The not taxable and other revenues achieved the highest income dynamics

Total income into the state budget reached 107.6% of the corrected budget in 2005 (i.e. the surplus of 61.5 billion) and achieved the year-on-year (comparable) growth by CZK 115.2 billion (i.e. by 15.3%). **Especially not taxable and capital incomes and accepted subsidies participated in this.** They reached the level of CZK 94.84 billion (the year-on-year increase by 85.2%). Their high performances (194.4%) were influenced not only by the income from EU (CZK 22.4 billion compared with CZK 13.5 billion in 2004), but especially by not in the budget included incomes from the transfer of funds from the Fund of State Guaranties (CZK 21.9 billion) and reserve funds into income chapters - from funds saved in past (CZK 21.8 billion - the biggest sum of CZK 5.6 billion came from the Ministry of Agriculture, then the ministry of Defence, CZK 4.3 billion, and the Ministry of

Graph No. I.3.2.1 Development in the state budget since 1993 (in billion CZK)



Source: Ministry of Finance, MIT Graph

Transport, CZK 3.4 billion). The dynamics and the performance of main items in the state budget are presented in Table No. I.3.2.1.

Table No. I.3.2.1 Performance of the state budget in 2005 (in billion CZK)

	2004 Corrected* reality January - December	2005			Performance in %	Index 2005/2004
		Budget after changes	Corrected budget after changes**	Reality January - December		
Total revenue	751.31	824.83	804.93	866.46	107.6	115.3
Taxable income	700.10	776.05	756.15	771.62	102.0	110.2
thereof:						
Natural person income tax	87.90	103.40	95.50	94.77	99.2	107.8
Legal person income tax	78.98	88.30	81.60	100.27	122.9	127.0
DPH (VAT)	129.20	167.00	154.30	146.82	95.2	113.6
Excise duties	89.91	87.50	94.90	103.63	109.2	115.3
Custom duties	4.90	0.70	0.70	1.25	178.6	25.5
Social Security fees						
Contribut. to the Employment Policy	293.30	314.75	314.75	311.18	98.9	106.1
Other	15.91	14.40	14.40	13.70	95.1	86.1
Not taxable and other income	51.21	48.78	48.78	94.84	194.4	185.2
Total expenditures	844.99	908.42	888.52	922.80	103.9	109.2
thereof:						
Current expenditures	782.79	833.85	818.96	843.80	103.0	107.8
thereof: social allowances	313.26	326.67	326.67	326.00	99.8	104.1
Capital expenditures	62.20	74.57	69.56	79.00	113.6	127.0
Total balance	-93.68	-83.59	-83.59	-56.34	67.4	60.1

Source: Ministry of Finance

Notes: *The reality adjusted to terms in 2005, with social allowances excluded

** Approved budget adjusted with budgetary provisions, including the effects of the Act No. 1/2005 Coll.

From the long-term point of view, there are significant structural changes taking place in taxable incomes, as the share of indirect taxes - DPH (VAT) and excise duties - is permanently falling in total taxable income (from 50.1% in 2000 down to 49.3% in 2005), while, in contrast, the share of the income tax grows (from 40.2% in 2000 to 44.6% in 2005).

The increase in the state budget expenditures was significantly lower than the pace of growth in revenues

State budget expenditures (of the year-on-year growth by 9.2%, i.e. by CZK 77.8 billion) strongly lacked behind the growth on the income side. **The utilisation of individual expenditure kinds** within the framework **continued to be very varied**. The decisive current expenditures (with the share of 91.4%) **reported the slower year-on-year growth** (by 7.8%) **than the capital expenditures** (by 27.0%). The high utilisation of expenditures was influenced by fund transfers from reserve funds of organisational state bodies (savings of expenditures in previous years) to incomes and, at the same time, expenditures (CZK 21.8 billion), but also by expenditures for the execution of state guaranties covered by the transfer of means from the Fund of State Guaranties (CZK 21.9 billion). The expenditures did not include the coverage of CKA losses, which, in contrast to the previous years, would be organised outside the state budget.

Among current expenditures, the biggest sum was transferred for social allowances (CZK 326.0 billion, i.e. 99.8% of the budget with the year-on-year growth by CZK 12.7 billion). That included pensions worth CZK 247.4 billion, i.e. 100% of the budget (the year-on-year increase by CZK 16.4 billion, i.e. 7.1%). Non investment transfers to public budgets at the regional levels - the other in volume important items - were utilised at the level of CZK 102.5 billion, i.e. 99.7% of the budget (the year-on-year decline by 7.6%).

*The expenditure part has been still subject to the high share of **mandatory expenditures**, which made up CZK 841.3 billion in the budget, i.e. 53.0% of total expenditures. The biggest volume of these expenditures related to social transfers, but also to state payments into the healthcare insurance and costs of debts.*

Self-administration units reported surpluses in their economies...

From the funding of self-administration units point of view, the year 2005 **recorded and important change, especially on the regional level** in connection with the new law on the budgetary tax determination (the increase of the tax share in the income of the state budget). Total revenues of the self-administration units - regions, municipalities, and voluntary groupings - reached CZK 334.7 billion (98.02% of the budget), while expenditures were utilised at the level of CZK 326.9 billion (94.4% of the budget). The economies thus finished with the surplus worth CZK 7.8 billion (CZK 0.9 billion thereof reported by regions). The share of municipalities and voluntary groupings in total income was 68.3% and in expenditures, it reached 67.8%.

... and public budgets finished similarly

Public budgets (including the net borrowing) **reported the surplus** worth CZK 0.8 billion (compared to the deficit of CZK 90.7 billion in 2004) in all government sector segments, with the exception of the Land Fund of the Czech Republic. Better results were reported especially by the National Property Fund and by self-administration units. The deficit in public budgets (after the exclusion of net borrowing and subsidies) reached CZK 53.7 billion, i.e. 1.8% of GDP (compared with CZK 77.5 billion in 2004).

Both state and government debts further increased

The trend of increases of the state debt continued in 2005. It started in 1997 and increased, at the end of the year, up to CZK 691.2 billion (by CZK 98.3 billion, i.e. by 16.6%). The reason behind the rising state and total government debt has been the continuing deficit management of the state budget. The internal state debt increased by CZK 59.2 billion, while the external one rose by CZK 39.1 billion. The coverage of a part of the CKA loss (CZK 30 billion) contributed to this debt increase as well as the creation of a reserve related to the transfer of the positive difference between the insurance revenue and the pension insurance of 2004 (CZK 8.3 billion) and also the second issue of Eurobonds (worth CZK 30.1 billion) and the utilisation of other EIB credits (worth CZK 9.1 billion).

Total government debt has been generated especially by the rising state debt. It reached CZK 762.1 billion (26.0% of GDP) in 2005 and its dynamics fell year-on-year and made up 15.6%.

I.4. Monetary policy and foreign direct investments

I.4.1. Monetary policy

The continuing economic growth without any strong pressures on price increases and the long-term strong currency made up the framework for the monetary policy in 2005. **The Czech National Bank was improving the exchange situation by lowering its referential rates during the 1st half year**, when the inflation slowed down and the currency appreciated (the lowering took place in three stages - on 28 January, 1 April, and 29 April - always by 0.25 percentage point). The third adjustment meant that the repurchase rate fell to its historical minimum of 1.75%, the discount rate to 0.75%, and the Lombard rate to 2.75%, and under the ECB rates level. CNB made the last adjustment - **the first increase of the basic interest rates** after the period longer than a year, when they decreased - **taking effect on 31 October 2005** and increased all three rates by 0.25 percentage point (the discount rate to 1%, 2T repurchase rate to 2%, and the lombard rate to 3%).

Domestic interest rates left behind the historical minimum

The stable level of long-term interest rates makes one of the four convergent criteria, the observance of which is, for a member EU country, the condition on the joining to the Eurozone. (This means that the average long-term nominal interest rate of the member country cannot exceed by more than 2 percentage points the interest rates of three member countries, which achieved the best results in the area of price stability, in the year before the survey.) The Czech Republic has been currently observing this criterion without problems and there is no important difference in nominal interest rates between the Czech Republic and the Eurozone. The domestic interest rates have been varying close to, or under the Eurozone rates since 2002.

Changes in the basic interest rates and the movement of market rates within the domestic inter-Bank market determined **the size of the interest differential, which reached in all maturities negative values towards both euro and dollar rates during 2005**. It was -0.4 percentage point towards the euro rates at the end of 2005 (it was positive, within the interval 0.3 - 0.4 percentage point at the end of 2004). It fell to -2.4 to -2.5 percentage points towards the dollar rates in December 2005 (it was -0.1 to -0.4 percentage point in December 2004).

The negative interest differential increased

Adjustments of key interest rates by CNB, together with the development of rates in the finance market, but also the competitive environment among Banks, reflected in the development of client interest rates. **The interest rates thus approached their historical minimum about the mid year** and they had started rising again since the end of the 3rd quarter. **The average interest rate on household loans** reached 7.5% in 2005 (8.1% in 2004). The rate for businesses reached 4.3% (4.5% in 2004). In the case of new business, it reached 11.3% for households and 4% for businesses (11.3%, 4.2% respectively in 2004).

Interest rates reached the historical minimum...

In the case of deposits, the average interest rate was 1.2% for households and 1% for businesses in 2005 (1.3%, 1.1% respectively in 2004). In the case of new deposits, the average interest rate for households was 0.8% in 2005 (the same as in 2004), but it was lowered for businesses down to 1.1% (from 1.2% in 2004). **The interest margin** was progressively declining during 2005 and decreased in

the case of households (from 6.5% in the first three months of the year down to 6% in December), while this development took place earlier in the case of the business sector (from 3.5% in January down to 3.1% as from August and 3.3% in December).

...while the liquidity fund demands by economic subjects continued

The trend of preference of liquidity means continued in reaction to the depreciation of deposited funds. It reflected in the growing volume of the monetary aggregate M1. Dynamics in its growth increased after the slowdown during the first nine months of the year (down to the year minimum of 5.1% in September) in the 4th quarter (year-on-year by 13% in December to CZK 1 087.2 billion, while it was 6.6% in December 2004). **This corresponded with the development in the pace of growth in single day deposits**, which returned back to two-digit year-on-year increases after the slowdown in the 2nd and 3rd quarters (by 13.5% in December, to CZK 823.4 billion, while this was only by 4.1% in September and 6.5% at the end of 2004) in the case of both business sector and households. Dynamics in the increases of money in circulation were faster at the end of the year, thanks to the slight growth in consumer expenditures by households (by 11.4% in December year-on-year, to CZK 263.8 billion, while it was by 7% in December 2004). **The share of liquid funds in the money supply increased up to the historically highest value of 54.9% in November** (it had made up more than one half of it since September 2003), when it was 54.6% in December (52.2% a year ago).

The money supply made the growth dynamics stronger at the end of the year...

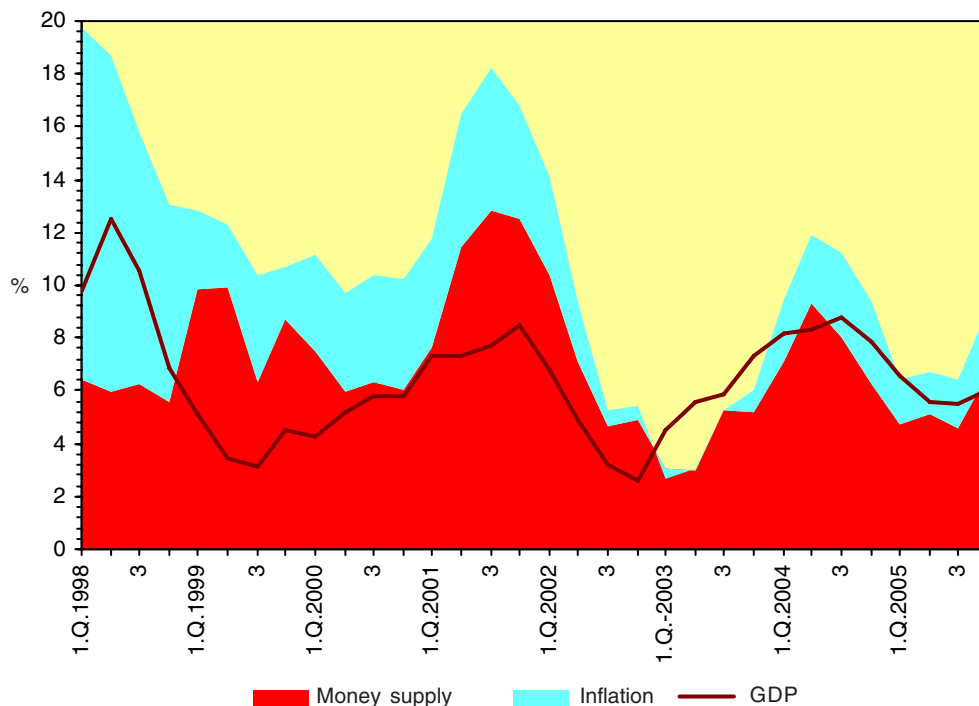
The money supply mostly retained the trend of mild growth dynamics in 2005 (started in the second half of 2004), when there were some signs of the return back to stronger growth dynamics in the 4th quarter (by 8% in December year-on-year, to CZK 1 992 billion with the minimum of 4.2% in September, while they grew by 4.4% in December 2004). This related to the lower decrease in the net credit to the government. While the domestic capital made up more than one half of the money supply in the 1st quarter of the year, because of the lower volume of net foreign assets and the net credit to the government, **the share of foreign capital in the money flow into the economy had increased since April** (it increased year-on-year in December by 24.7%, to CZK 1 076.4 billion, while it increased by 5.1% in December 2004). The inflow of the foreign resources culminated in July, when its share grew up to 57.7%, the highest value since 1993.

The worsened serving of GDP with the money supply prevailed in spite of the fact that the difference between the dynamics in the growing GDP and the money supply had narrowed since the 2nd quarter of 2005, while inflation grew. Since 1998, when CNB started to directly target inflation, the monetary policy had been restrictive in the period 2003 - 2004 and the growth dynamics in GDP were stronger than the dynamics in the growth in money supply, while inflation had been falling, or it was negative. As Graph I.4.1.1 shows, the monetary policy, considering the inflation development, was the restrictive one also in other periods. The money supply turnover speed (which was under the level of 1.5 for more than three years, till the 3rd quarter in 2004) started to decrease progressively again in 2005 (from 1.53 in the 1st quarter down to 1.49 in the 4th quarter).

... while dynamics in the year-on-year growth of client credits also increased...

The low interest rates supported the tendency towards higher debts of not only households (mainly in the form of mortgages), but also in the business sector. Credit demands, by the enterprising sector and households, further increased their high growth dynamics (up to 20% year-on-year and CZK 1 067.4 billion in December 2005, from 12.4%, i.e. CZK 889.4 billion, in December 2004). **Business sector debts dynamically increased their growth** (by 13.1% in December year-on-year, to CZK 649.6 billion, while it was by 3.6% and CZK 574.2 billion in December 2004). Debts of enterprises under foreign control grew during the whole year, but the pace even increased in the second half of the year. In contrast, debts of domestic enterprises slowed down their pace after the growth in the 1st half year (with the exception of long-term debts).

Graf č. I.4.1.1 Comparison of the development in the money supply, inflation and GDP



Source: CNB, CZSO, MIT Graph

Debts of households, where the growth dynamics were stronger after 1997, **had retained their year-on-year increases above 30% since April 2004**. The pace of their year-on-year growth above that level slowed down in 2005, but their volume was still rising (by 32.5% year-on-year, to CZK 417.8 billion in December 2005, compared with 32.7%, i.e. CZK 315.2 billion, in December 2004) and foreshadowed thus the demands' saturation. There were consumer credits and mortgages growing, which made up more than two thirds of households' credits. The share of household credits in the total client credits increased to 39.1% in 2005 (it was only about 13% in 1993).

... credits to households still dominated

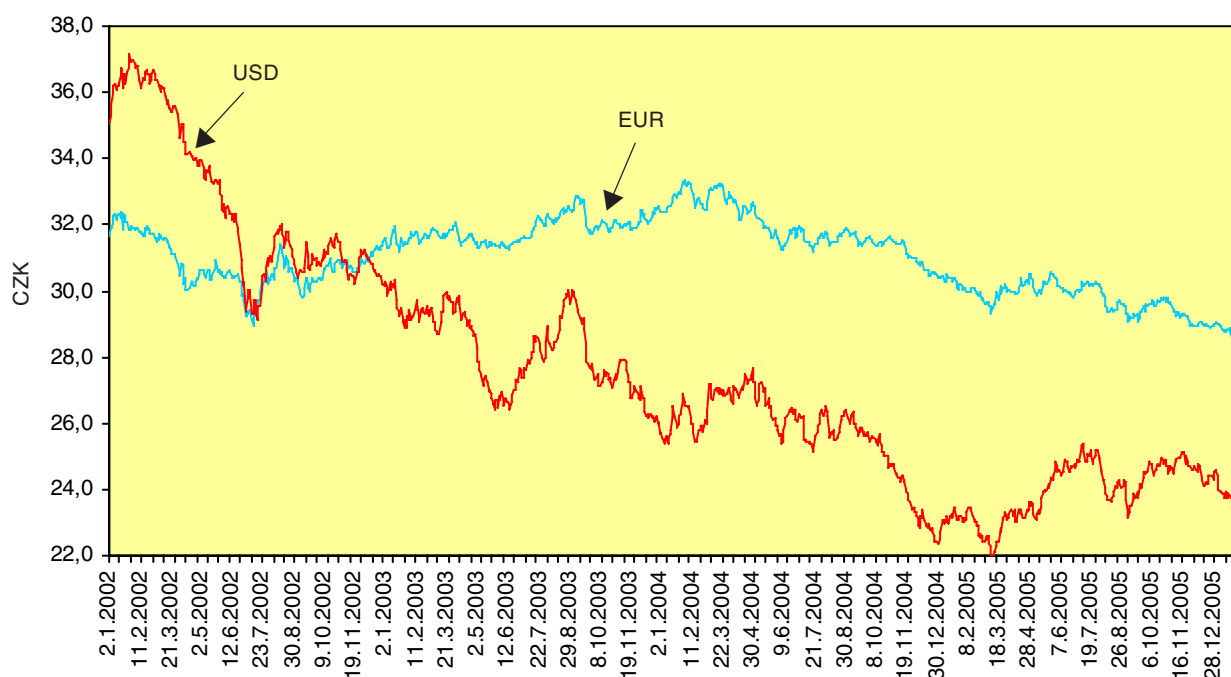
The volume of classified credits showed the declining trend at the end of the 4th quarter (CZK 127.6 billion). This trend was interrupted just a year ago. At the same time, their year-on-year growth dynamics also decreased (from 17.7% in September, when they culminated, down to 7.4%, compared with 4.2% in December 2004). Consequently, their share in the total volume of credits also decreased (down to 11.7%, while they were 10.8% at the end of December 2004). **Bad debts started to rise at the beginning of the year** within this framework (they increased by CZK 1.6 billion, up to CZK 21.5 billion, i.e. by 8.2% at the end of December year-on-year). They thus turned around the previous long-term declining trend. At the same time, their share in classified credits also slightly increased (from 16.7% in December 2004 to 16.8%).

Volume of classified credits fell at the year end

Decreasing basic interest rates in the 1st half of 2005 and the partial correction of the rates up in the 4th quarter did not significantly change the development in the Czech crown exchange rate. The domestic currency mostly **followed the development taking place in the Central European region and reacted to activities in the euro-dollar market**. The Czech crown retained the trend of appreciation towards both referential currencies on average during 2005, but its appreciation towards a euro slowed down at the year end and it even depreciated towards the dollar. **The Czech crown thus reached its strongest value in its history in 2005**. The developments in the crown exchange rates, towards euro and dollar, are illustrated in Graph No. I.4.1.2.

The Czech crown followed the currency development taking place in Central Europe during the entire year

Graph No. I.4.1.2 Development in the nominal exchange rate of CZK towards EUR and USD
(the period 2 January 2002 - 31 January 2006)



Source: CNB, MIT Graph

The Czech crown appreciated towards a euro to its historical maximum...

The Czech crown started the year 2005 with its continuing appreciation towards a euro. Fluctuations in the interest of foreign investors decisively contributed to the slowdown in the appreciation pace in the following months. The currency returned back to the appreciation towards a euro in August and **strongly strengthened especially during the last weeks of the year. It thus reached its historical maximum in December**, when it broke over the rate CZK 28.90/EUR. The crown development towards a euro in 2005 could be characterised as follows:

- **It got the strongest** in the year, but also in its history, on 22 December 2005 with the exchange rate CZK 28.865/EUR,
- **It got to its year minimum** on 25 May 2005 with the exchange rate CZK 30.555/EUR,
- **It appreciated on average during the year** by 6.6% (while it was, in contrast, weaker by 0.2% in December 2004)
- It appreciated by 5.5% in December, **when compared with the beginning of the year 2005** (while it was by 5.2% in December 2004).

... when it reached the historical value also towards the dollar

The Czech currency was retaining strong exchange rates also towards the dollar at the beginning of 2005 and **appreciated up to the historical maximum in March**. The expected correction of the previous fast appreciation of the crown in the following months resulted from the appreciation of the dollar towards a euro, when the capital transferred from the European region to the American market because of higher dollar profits. The weakening trend of the crown towards the dollar slowed down in the 2nd half of the year, in spite of the appreciation of the dollar towards a euro, thanks to the higher appreciation of the crown towards a euro. This development towards the dollar had the following results:

- **The historical maximum** was achieved on 11 March 2005, when the exchange rate was CZK 21.968/USD,
- **The year minimum** occurred on 8 July 2005, when the exchange rate was CZK 25.402/USD,

- **The Czech crown appreciated on average during the year by 6.8% (by 8.9% in December 2004),**
- **It depreciated by 6.9% in December, when compared with the exchange rate existing in the beginning of the year 2005 (while it was stronger by 13.1% in December 2004).**

The mutual American dollar to a euro ratio moved, under the influence of the two contrasting factors - the expected further rising interest rates in USA, but also the high deficits in the balance of payment and in the state budget of USA, within a wide fluctuation range during the first months of 2005. **The strong strengthening of the dollar exchanged the volatile period then in the 2nd quarter**, when the attention of investors was paid to the growth potential of the interest differential of USA, when compared with the Eurozone, within the expectations of further fast growth of interest rates. **After the trend of strengthening towards a euro slowed down in the 3rd quarter** (mostly because of worries related to the slowing down pace of growth in the US interest rates and publication of some not very favourite US data, and the more positive macroeconomic data in the Eurozone), the dollar started to strengthen again. This was supported especially by the expectations of a further increase of their interest rate advantage and by the sell out of euros by investors, who had expected the fast increases in interest rates in the Eurozone before. **The dollar thus appreciated towards a euro up to the two-year maximum in November**, while the development practically ignored the economic data. The slump in a euro (down to the level of January 1999, when it was introduced) was supported by the escalating violence in France. The ups and downs of the dollar towards a euro were as follows:

- **It fell down to its minimum** on 3 January 2005 with the exchange rate USD 1.347/EUR,
- **It appreciated up to the maximum** on 14 November 2005 with the exchange rate USD 1.167/EUR.

The development of the real crown exchange rate was influenced, in addition to the development in the nominal rate, by slower growth of the domestic price level, especially in the 1st half year of 2005, when compared with the Eurozone and in USA. The difference in the growth of the price levels started to narrow in the second half year, when the domestic price level almost equalled the price level in the Eurozone in the 4th quarter, and significantly approached that in USA. **In real terms, the Czech crown appreciated towards euro year-on-year, but it lost towards the dollar during the last two months of 2005.** Despite the slacking in the 2nd and 3rd quarters, the strengthening of the Czech crown in real terms meant further pressure put on the competitiveness of Czech products in the European markets. In contrast, their competitiveness improved in dollar markets after the depreciation of the currency in real terms at the end of the year. The long-term development of the Czech crown exchange rate towards the referential currencies is presented in Table No. I.4.1.2.

The summary result in the balance of payments was positive in 2005 (CZK 92.9 billion, i.e. USD 3.9 billion) and had ranked the third best since 1993 (behind 2002 and 1995). It was almost completely created in the 2nd quarter (CZK 83.7 billion, i.e. USD 3.5 billion). The balance of payments was dominated by **direct investments** (CZK 242.7 billion, i.e. USD 10.1 billion) generating the surplus on the financial account (CZK 137.9 billion, i.e. USD 5.8 billion and 4.7% of GDP). **The balance of payments participated in the deficit on the current account** (CZK 61.7 billion, i.e. USD 2.6 billion and 2.1% of GDP) **and it, thanks to its change towards positive values**, partly corrected the high deficit in the balance of revenues. The development in main items of the balance of payments, in individual quarters, is presented in Graph No. I.4.1.3.

The dollar appreciated towards a euro to the two-year maximum

The Czech crown appreciated towards a euro, in real terms, but started to depreciate towards the dollar

Balance of payments finished with high surplus

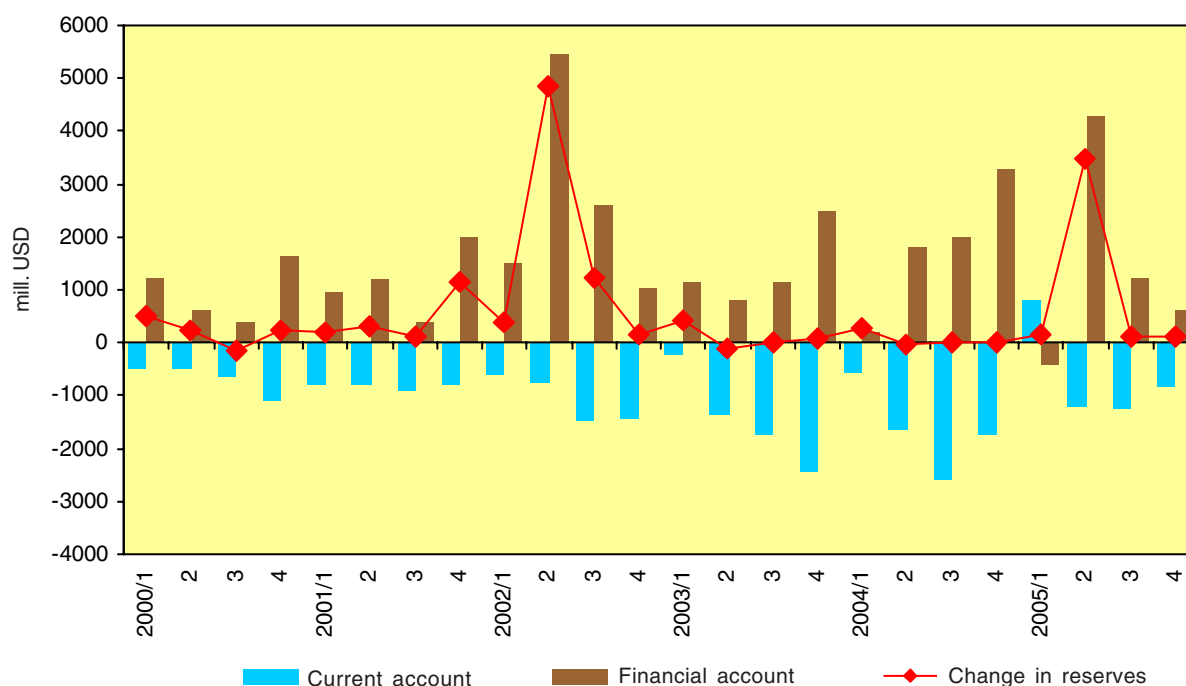
Table No. I.4.1.2 Development in the nominal and real exchange rates of the Czech crown

Period	Nominal exchange rate (in CZK)			Real exchange rate					
	Annual average			December 1989 = 100			December of the previous year = 100		
	DEM	EUR	USD	DEM	USD	EUR ^{*)}	DEM	USD	EUR
1990	11.17	.	17.95	67.00	67.88	.	66.99	67.85	.
1991	17.71	.	29.49	74.00	84.51	.	110.78	124.94	.
1992	18.13	.	28.26	80.50	92.48	.	108.85	109.38	.
1993	17.64	.	29.16	95.50	102.10	.	118.67	110.44	.
1994	17.74	.	28.78	99.40	115.62	.	103.53	112.67	.
1995	18.52	.	26.55	102.20	128.88	.	102.73	111.50	.
1996	18.05	.	27.14	115.00	132.21	.	112.42	102.47	.
1997	18.27	.	31.71	112.10	112.56	.	97.53	85.15	.
1998	18.33	.	32.27	129.30	136.55	.	115.43	121.41	.
1999	18.85	36.88	34.60	127.90	115.04	99.58	98.89	84.24	99.58
2000	18.21	35.61	38.59	134.70	105.94	104.61	105.25	92.10	105.05
2001	17.42	34.08	38.04	147.40	116.00	113.85	109.34	109.20	108.83
2002	.	30.81	32.74	.	135.61	116.44	.	116.36	102.27
2003	.	31.84	28.23	.	156.74	111.28	.	115.41	95.57
2004	.	31.90	25.70	.	179.61	117.53	.	114.28	105.62
2005	.	29.78	23.95	.	166.12	123.90	.	92.19	105.41

Source: CNB, CZSO, Eurostat, BLS USA, MIT calculations

^{*)} December 1998 = 100

**Graph No. I.4.1.3 Development in main accounts and the result of the balance of payments since 2000
(in million USD, in individual quarters)**



Source: CNB, MIT Graph

... and the deficit on the current account significantly lowered...

The current account in the balance of payments had finished with the lowest deficit since 1999, when it started to grow, in 2005 after the surplus in the 1st quarter and relatively low deficits in the following quarters. It went through important structural changes during the last period, when the former dominant deficit in the balance of trade was subject to a more pronounced declining trend. The balance returned back to black numbers in 2005 and the balance of revenues

became the biggest burden on the current account. **The deficit on the current account decreased year-on-year by CZK 105.7 billion in 2005** (by 63.1%) and reflected:

- **Positive balance of trade** (CZK 40.4 billion, i.e. USD 1.7 billion and 1.4% of GDP) achieved for the first time in the history of the Czech Republic, after 11 years of deficits. This was the result of faster growing exports (by 8.9% year-on-year), when compared with imports (by 4.9% year-on-year). Chapter IV deals with the analysis of the balance of trade in more detail.
- **Growing surplus of the balance of services** (by 54.8% year-on-year, to CZK 19.4 billion, i.e. USD 0.8 billion). Its strong dynamics reflected the low level of the previous year. Revenues grew faster (by 3.8%) than expenditures (by 1.1%) this time. The turnaround in the balance towards the growth reflected the important increase in the surplus of the balance of travel industry (by 8.9% year-on-year, to CZK 53.2 billion) influenced by a higher number of tourists coming to the Czech Republic from neighbouring countries and through the Praha airport and, in contrast, the slight decreases in expenditures of our citizens in tourism. The surplus in the balance of transport also contributed to the positive development in the balance of services (growth by 5.7%, to CZK 35.6 billion), together with the slight decrease in the deficit of the in volume most important other services (down to CZK 69.4 billion) taking place after several previous years of significant growth (it includes, for example, services by the finance and computing technologies, constructing and assembly works, telecommunication services, legal and consulting and mediating services).
- **The decrease in the deficit in balance of revenues** (by 9.8% year-on-year, to CZK 142.3 billion, i.e. USD 5.9 billion), which took place after several years of intensive growth in the deficit. Investment revenue made up more than 80% of the revenue balance volume (CZK 115.4 billion), while the reminder belonged to the compensation of employees (almost CZK 27 billion). The outflow of investments was dominated by the direct investment revenue (73%, i.e. CZK 148.6 billion) followed by other revenues, i.e. interest rate investments (more than 21%, i.e. CZK 43.2 billion) and portfolio investments (almost 6%, i.e. CZK 11.6 billion).

The deficit in the investment revenue related to the paid dividends, but also to the volume of reinvested profits (CZK 75.1 billion), which covered roughly 30% of direct investments. If the balance of reinvested profits were excluded from the balance of revenues, the current account would achieve the surplus of CZK 13.5 billion, i.e. 0.5% of GDP.

- **The surplus in the balance of current transfers** (CZK 20.9 billion, i.e. USD 0.9 billion), the high year-on-year increase (almost fivefold) of which was influenced by the low base of the previous year. Revenues reflected the received payment of two instalments related to the claim of ČSOB against Slovakia on the basis of the decision made by the international arbitration and also, for example, higher revenue from taxes and fees paid in relation to the social security for foreign workers in the Czech Republic, and the increase in one-time incomes of the population and non government institutions. The expenditure side reflected mostly deliveries to the EU budget and payments of social security allowances guaranteed by the state (pensions) abroad.

The result of the financial account depended on the positive balance level of direct investments, when the other in volume important items - portfolio and other investments - finished in a deficit. The balance of the financial account was thus corrected and the level of the surplus thus decreased by a quarter, when compared with the previous year (down to CZK 137.9 billion, i.e. USD 5.8 billion). It was the result of:

... and the high level of the financial account was retained...

- **The high balance of direct investments** (CZK 242.7 billion, i.e. USD 10.1 billion), which was the second highest in its volume in the history of the Czech Republic (behind 2002). It was decisively participating in by the sale of important state capital participating in companies like Unipetrol and Czech Telecom. The inflow of foreign direct investments thus increased to CZK 263.2 billion, i.e. USD 11 billion, and it was invested mostly in the forms of the equity (CZK 184.6 billion) and reinvested profit (CZK 78.2 billion). The volume of other capital was negligible (CZK 0.4 billion).
- **Outflows of portfolio investments** (CZK 72 billion, i.e. USD 3 billion), the highest since 1993. The outflow of this capital started to show in the 3rd quarter of the previous year (with an interruption in the 2nd quarter 2005) and it culminated in the 3rd quarter 2005. Its development was influenced by the selling of domestic securities hold by foreign investors, the instalment of bond issues by domestic enterprises issued in the past on foreign capital markets, the purchase of foreign securities, long-term bonds and shares by commercial Banks, businesses and institutions within the government sector abroad, and issues of debentures by domestic subjects in foreign markets.
- **The deficit in the balance of other investments** (CZK 30 billion, i.e. USD 1.3 billion) showed the trend of growth in the 1st quarter 2004, thanks to moving interest rates, and after the interruption in the 2nd half year culminated in the 2nd quarter of 2005 (in contrast to the inflows in 2002 and 2003). The investments flew in during the 2nd half year of 2005 (CZK 23.9 billion, i.e. USD 1 billion) and partly eliminated the previous outflow. Operations by the banking sector were decisive for the resulting outflow of other investments (the balance of the outflow was CZK 91.8 billion). At the same time, the inflow of other investments increased to the government sector (to CZK 34.9 billion), including at the regional level. The resulting balance was influenced also by transactions with the means of the government sector on accounts of the European Union with CNB, when some earlier granted credits were paid, some unblocking operations and utilisation of credits from EIB took place for the construction of the infrastructure, but also by the establishment of the long-term liability related to the hire of jet-fighters. The inflow of other investments was reported also by the business sector (CZK 27 billion), mostly in the form of import credits.

... and significantly influenced the level of foreign currency reserves

The foreign currency reserves mostly grew and added up to CZK 726.7 billion, i.e. USD 29.6 billion at the end of 2005 (from CZK 636.2 billion, i.e. USD 28.4 billion at the end of 2004). They covered 4.2 monthly imports of goods and services (3.8 at the end of 2004), when the three-month coverage is considered safe. In addition to the result of the balance of payments of 2005 (CZK 92.9 billion), they were also influenced by the differences from the exchange rates, the revenue coming from the investment of foreign currency reserves, sales of profits from their ownership in the foreign currency markets, and by the balance of executed client operations.

The foreign debt of the Czech Republic remained under the level of CZK 1 trillion

The gross indebtedness confirmed the long-term trend of growth, when it increased to CZK 1 125.9 billion at the end of December (USD 45.8 billion), to the highest level since 1993. It grew year-on-year by 11.3%, i.e. by CZK 114.1 billion. **The level of the foreign debt equalled 38.4% of GDP** (it was 36.6% at the end of 2004) and remained thus under the generally recognised „safe“ level of 40%. The time structure **continued to develop for the benefit of long-term liabilities**, which increased their share by 2.7 percentage points (to 68.6%) and **created thus the decisive volume** of the foreign debt (CZK 772.9 billion, i.e. USD 31.4 billion). They grew by CZK 105.6 billion, i.e. by 15.8%. The short-term indebtedness increased only by 2.5%, i.e. by CZK 8.5 billion (to CZK 353 billion, i.e. USD 14.4 billion).

I.4.2. Foreign direct investments

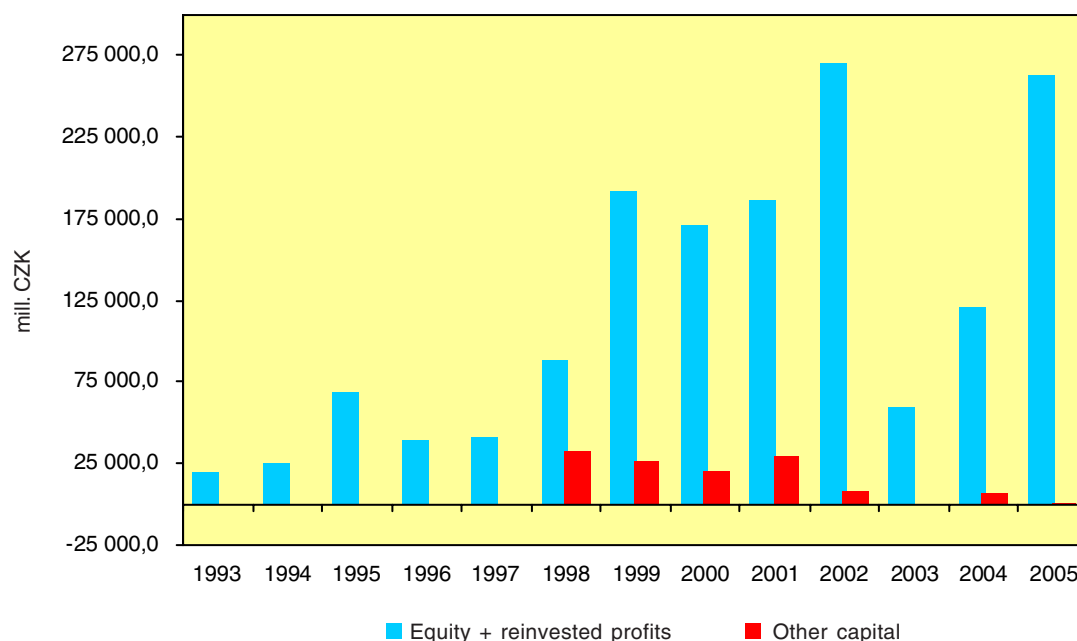
The inflow of foreign direct investments had achieved the second highest volume in the history of the Czech Republic since 1993 in 2005 (it was even higher in 2002, when the state owned company Transgas was privatised). **Foreign direct investments grew by 105.9% year-on-year, to CZK 263.2 billion** (almost USD 11 billion), mostly thanks to important privatisation actions (e.g. the sale of state owned shares in Czech Telecom to Telefonica, in Unipetrol to PKN Orlen, and in Vítkovice Steel to Evraz Holding). Almost the entire volume of foreign direct investments (CZK 262.8 billion) was invested in the form of equity and reinvested profits of foreign owners, while other investments made up only CZK 0.4 billion (see Graph No. I.4.2.1).

The inflow of foreign direct investments achieved the second highest volume in the history of the Czech Republic

The placement of foreign investments in industries with high value added continued, especially in the automotive industry and in electrical engineering. This took place in regions with a high unemployment rate (the region of Ústí and Moravian-Silesian region). The structure of investments changed in a positive way by the development and construction of technological centres and centres of shared services of foreign investors (e.g. the project by the American software firm Computer Associates focussed on the worldwide research of software or the CSA project in co-operation with foreign investors, which should create a repair centre in Praha-Ruzyně).

Foreign direct investments significantly contributed to the economic growth based on increases in the labour productivity and on the strengthening of competitiveness and initialisation of structural changes and improvements in the technological standard.

Graph No. I.4.2.1 Inflow of foreign direct investments to the Czech Republic in the period 1993 - 2005



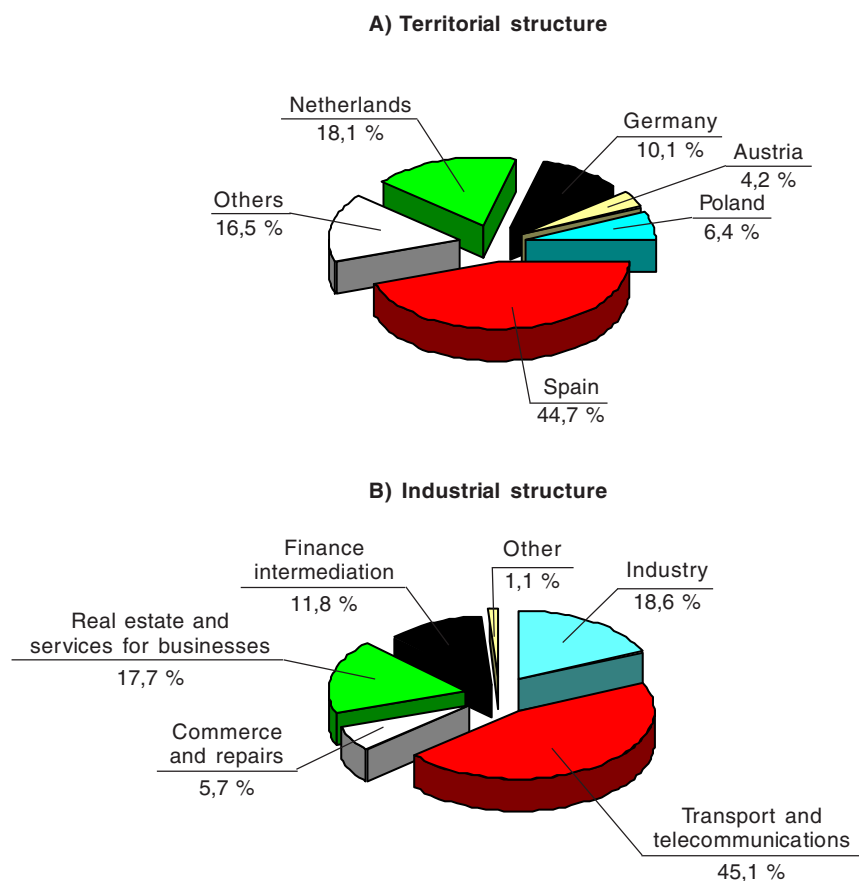
Source: CNB, MIT Graph

The biggest volume (94.1%) of foreign direct investments came from EU-25 countries, namely Spain (44.7% of the total volume) and went into the industries of transport and telecommunication in connection with the above-mentioned acquisition of Czech Telecom by Telefonica. Some investments (18.1%) came also from the Netherlands and they went also to the industries of transport and telecommunication. The investments from Germany (10.1%) went to industry and

Investments came mostly from EU-25 countries and went especially to the industries of transport and telecommunication

also to the transport and telecommunication industries. With regard to the industrial structure, there were investments to transport and telecommunications dominating (45.1%), while real estate and services for businesses retained also the high share (17.7%) that reflected the sale of Unipetrol to the Polish PKN Orlen (see Graphs No. I.4.2.1A and No. I.4.2.1B).

Graph No. I.4.2.1 Structure of foreign direct investments in 2005



Source: CNB, MIT Graphs

Investment outflows from the Czech Republic significantly declined year-on-year

The scope of direct investments of the Czech Republic abroad fell by about one fifth year-on-year in 2005 down to CZK 20.5 billion (almost USD 0.9 billion), while their more than fourfold increase, of the volume of CZK 26.1 billion, was reported in the previous year. Investments to equity and the reinvested profits made up CZK 11.4 billion, while other capital CZK 9.1 billion in 2005. From the territorial point of view, Czech companies mostly invested (86.9%) in countries outside the Eurozone. The biggest share in this result belonged to the provision of a loan by the Czech subject to its subsidiary within the group of a foreign investor in Mauritius. The most important Czech investments in European countries went to the energy industry (the acquisitions in Romania and Bulgaria by CEZ) and to pharmaceuticals (the investment by Zentiva in Romania).

I.5. Capital market

The world financial markets reacted to a number of events in 2005 like the high prices of energy commodities, the less favourable development in global economies, while waiting for reports of their more pronounced recoveries, increases in the long-term interest rates in USA, and their stagnation in the Eurozone, or the geopolitical risks and terrorist attacks. **The first half year** was characterised by pessimistic moods, which caused **mixed moves in share prices in traditional markets**. This period was **exchanged for the strongly pronounced strengthening of share prices worldwide**, when the optimism offered hopes of more favourable development in the global economy and the share prices were influenced by increasing business profits suggesting the world recovery. Especially Asian economies, but also USA contributed to the general dynamics.

Recovery took place in world capital markets after the fluctuating movements in the 1st half year...

The rates of American capital markets started finally strengthening in the second half year and the technological index Nasdaq Composite of 2005 increased by 2.3% and the stock exchange index S&P 500 increased by 3.7%. Shares in Europe performed much better, when the German DAX had grown by 28.3% since the year beginning, the Parisian CAC 40 increased by 24.7%, and the London FTSE grew by 17.0%. **However, the indices in Central Europe experienced the highest strengthening, when the increased interest of investors, specialised on the Central European region** grew under the influence of the favourite macroeconomic situation - the Hungarian BUX grew by 42.1%, the Polish WIG increased by 35.4%, and Slovak SAX by 26.5%.

... their indices strengthened...

The strong trend of growth in the main domestic stock exchange index PX 50 existing at the beginning of 2005 changed, in late March, for the consolidation trend. The market was fluctuating in the following months. It followed the development in world markets and the shares weakened twice and strengthened twice during the period from March to July. The index PX 50 **continued in record holiday increases and created several times its maxima** above 1 400 points in the 3rd quarter. It **improved its record value up to 1 478.3 points** (on 4 October) and finished the year with 1 473.0 points (the year-on-year increase by 42.7%, see Graph No. I.5.1). The driving force was made by the shares of expanding CEZ, while the shares of Unipetrol and Zentiva also significantly appreciated.

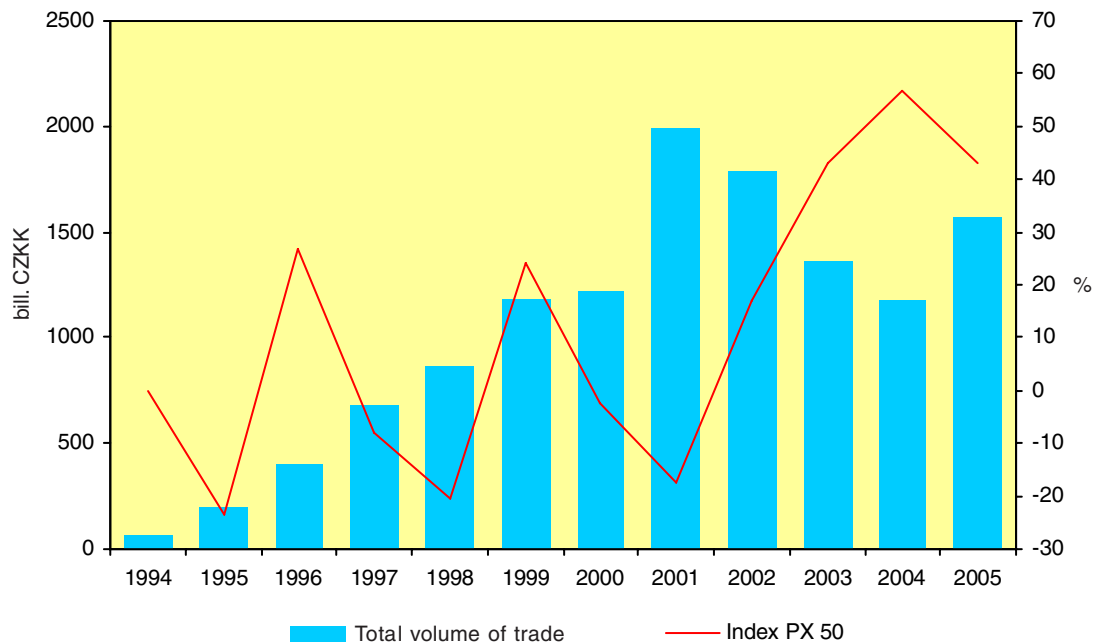
... and the domestic index PX 50 created maxima

The structure of executed trading changed in BCPP in 2005 (see Table No. I.5.1), when shares and investment certificates started to dominate again to the detriment of transactions with long-term securities (this was the case last time in 1996). **The year 2005 became thus the most successful trading year in the history of the Praha Stock Exchange share market**, when shares of the record value of CZK 1 041.2 billion changed their owners (i.e. the increase by 117.1%, when compared with the then most successful year 2004). It presented the traded sum executed almost in four previous years. And it took place at the time of a limited number of titles on the offer. The fact that the investors take currently interest in not only interesting evaluations of individual titles, but also in good results of enterprises and their future growth perspectives is highly positive. The growing activity by small domestic investors, the representation of which was about 10%, was also positive. **The most liquid issue was CEZ** in 2005 with the volume of CZK 298.7 billion, followed by **Czech Telecom** (CZK 288.3 billion), and **Komerční banka (Commercial Bank)** (CZK 206.4 billion).

In BCPP, mostly shares and investment certificates were traded again...

Two foreign issues entered the main BCPP market in 2005. They were the shares of Luxembourg real estate company ORCO Property Group as from 1 February 2005 (registered also in Euronext in Paris) and CME (CETV - Central European Media Enterprises) as from 27 June 2005. The shares of both companies became the Praha Stock Exchange titles traded in the SPAD segment (System for the support of share and bond

Graph No. I.5.1 Development in main BCPP indicators



Source: BCPP, MIT Graph

market) and they were classified within the market indices PX 50 and PX-D. They present another diversification option in another economy industry for investors.

... and BCPP became the second strongest share stock exchange in the region

The Stock Exchange in Praha became, thanks to the volume of share trading, **the second biggest stock exchange in the region of Central Europe**. The top place was retained by Vienna with the trading value of EUR 37.5 billion. It was followed by Praha (EUR 34.9 billion), Warsaw (EUR 24.2 billion), and Budapest (EUR 19.4 billion).

Table No. I.5.1 BCPP trading and its development

Year	Shares and investment certificates			Bonds		
	Trading volume (in billion CZK)	Total share in the trading volume (in %)	Number of issues (at the period end)	Trading volume (in billion CZK)	Total share in the trading volume (in %)	Number of issues (at the period end)
1994	42.6	68.7	1 028	19.4	31.3	27
1995	125.6	64.3	1 716	69.8	35.7	48
1996	249.9	63.6	1 670	143.3	36.4	80
1997	246.3	36.2	320	433.2	63.8	92
1998	172.6	20.1	304	687.6	79.9	98
1999	163.5	13.8	195	1 024.0	86.2	95
2000	264.1	21.6	151	958.7	78.4	94
2001	128.8	6.5	102	1 858.3	93.5	84
2002	197.4	11.0	79	1 595.7	89.0	74
2003	257.4	18.8	65	1 110.1	81.2	81
2004	479.7	40.9	55	692.5	59.1	79
2005	1 041.2	66.1	39	533.2	33.9	93

Source: BCPP

In contrast, the trading volume in the bond market, at the level of CZK 533.2 billion, **lowered year-on-year** by 23.0%. It was the fourth lowering in a row and the lowest volume since 1997.

Stock exchange industrial indices strengthened **within the strong trend of growth in the Praha Stock Exchange**. Share prices were influenced especially by the permanent increases in business profits and the more favourite future economic forecast. The review of the price development in individual industries is presented with Table No. I.5.2. **Stock exchange indices of selected industries achieved the following results in 2005:**

Stock exchange industrial indices grew rapidly

- **The energy industry** index continued in its growth (by 97.2%), mostly thanks to the growing demands related to shares of the power company **CEZ** (the year-on-year growth by 116.1%). The company was the second biggest exporter of power in Europe. The main vision of the company has been the strengthening of the group in the power market in the region of Central and South-Eastern Europe through purchases of shares in foreign companies. Since January 2005, it has owned the majority in three Bulgarian distribution companies, the acquisition of which has meant the biggest foreign investment in the history of the Czech Republic so far. It participated in tenders related to the acquisition of 100% share in coal power plants of Electrica Oltenia and it is interested also in other acquisitions in Romania and in targeted areas in the South-East and Central Europe (e.g. Poland, Macedonia, and Montenegro). The company strengthens its position also in the domestic market - by the reorganisation of power distribution and sales. It took over the strategic supplier of brown coal (North Bohemian Mines) and has thus become an integrated company, which is mining cheap coal and sales the highly sophisticated product - power.
- The growth in the **chemical and pharmaceutical index** (by 79.8%) was influenced by the development in the value of shares of Unipetrol (the year-on-year increase by 136.8%), which was gained by the Polish oil concern PKN Orlen within the privatisation of the state share. The fusion of these companies should lead to the establishment of a petrochemical giant, which should play an important role also outside the region. The company significantly increased its profits by decreasing costs and also in the result of rising prices of products influenced by the development in crude oil prices. According to the new medium-term strategic plan, PKN Orlen counts on restructuring and sale of some subsidiaries. The company wishes in future to focus on petrochemistry, refining, and sale of fuels with the stress put on better effectiveness of the entire Holding. **Zentiva** (the year-on-year increase by 49.9%) was not too successful in increasing its revenue on the Czech and Slovak markets (in contrast to Poland and Russia, where the revenues strongly grew). The reason was in the company focus on the modernisation of the product portfolio, growing sales and marketing costs, which accompanied the foreign expansion and introduction of new medicine into the markets, including costs of research and development. The long-term growth potential of Zentiva is, however, very high and the acquisition of Sicomed (the Romanian producer of generic medicine) should increase it even more. In spite of the above-said, the company fulfilled expectations of the market in 2005 and forecasts further profit increases.

The increased volume of executed transactions, up to CZK 1 595.5 billion (i.e. the year-on-year increase by 33.5%), **meant the positive change in the Czech capital market in 2005**. The securities stock exchanges trading worth CZK 1 574.4 billion (the year-on-year increase by 34.3%) covered 98.7% of the total volume, while the reminder was executed by RM-System and the Securities Centre.

The dominant position of BCPP in the domestic capital market...

RM-System with the trading worth CZK 6.6 billion (the year-on-year increase by 34.8%) covered only 0.4% of transactions in the domestic market. Both share trading and investment certificates trading increased in this outside the Stock Exchange market (to CZK 5.5 billion, i.e. by 20.1%). The trading related to debentures increased to CZK 1.1 billion and increased thus almost fourfold. **The**

... the trading and the index significantly increased in RM-S...

Table No. I.5.2 Development in Stock Exchange industrial indices

Index	Value as on												Mezir. změna (%)	
	31. 12. 1994	31. 12. 1995	31. 12. 1996	31. 12. 1997	31. 12. 1998	31. 12. 1999	31. 12. 2000	31. 12. 2001	31. 12. 2002	31. 12. 2003	31. 12. 2004	31. 12. 2005	2004/ 2003	2005/ 2004
PX-50	557.2	425.9	539.6	495.3	394.2	489.7	478.5	394.6	460.7	659.1	1032.0	1473.0	56.6	42.7
PX-D	x	x	x	1235.0	996.4	1296.7	1366.0	1065.6	1166.4	1642.7	2551.1	3731.4	55.3	46.3
PX-GLOB	820.8	595.6	655.6	599.1	478.3	587.9	570.6	492.9	576.8	816.9	1232.7	1811.3	50.9	46.9
Chemicals, pharm., and rubber	859.7	400.0	318.5	255.2	138.0	140.3	154.3	118.0	110.7	206.9	327.7	589.3	58.4	79.8
Energy industry	829.2	588.7	728.7	736.7	414.6	555.6	536.1	451.5	590.0	835.6	1528.2	3013.0	82.9	97.2
Services	837.8	628.0	610.2	465.9	383.3	518.9	446.5	404.0	455.2	597.6	580.8	732.5	-2.8	26.1

Source: BCPP

starting of the free market RM-S in the 3rd quarter was an important event, which meant the return of selected and in the past from the trading excluded issues to the capital market. They were, for example, shares of Madeta, West Bohemian Gas Company, Šmeral Brno, and Lafarge Cement, mostly because of their significant economic importance. The trading for North Bohemian Mines opened up as well. **The Index PK 30** strengthened year-on-year with the value 2 364.98 by 63.8%.

The branch network of the outside Stock Exchange RM-System under the new owner - Finance Group J&T - has transferred into a Centre of financial and investment services. It is now possible to conclude also additional pension insurance, travel insurance, or building savings policies and invest into funds' certificates in almost 60 branches countrywide, in addition to the trading with securities.

In contrast, the trading volumes in the **Securities Centre** (CZK 14.5 billion) fell year-on-year by 20.8% and even more significantly decreased the trading in shares and investment certificates (by 33.6%), or debentures (by 3.5%).

... trading in SCP continued to decline

I.6. Financial situation of non-financial sector

Results of financial indicators of organisations in the non financial sector (with 100 or more employees) **improved year-on-year, but most flow indicators grew slower** when compared with 2004 and **the gross profit slightly decreased**. This was influenced by the high comparison base of 2004, which was influenced by high growth in production, exports and favourite exchange rate at the time, when the Czech Republic was accessing EU.

Financial results improved year-on-year, but their growth slowed down

Industry, with its weight, influenced results of the non financial sector with almost 60% share in total revenues and costs of the non financial sector. The construction industry and services for businesses also contributed to the year-on-year improvement of financial indicators (especially activities in the area of computing technology, accounting and auditing activities, and taxation consulting). The above-average year-on-year growth in the financial indicators in services for businesses was also influenced by the restructuring of five distribution energy companies² within the project VISION 2008 by CEZ, a.s. The year-on-year falls of financial results continued in agriculture, forestry and fisheries (with the exception of forestry and the related activities). Smaller plant production (lower harvest) influenced the worsening results in agriculture as well as the high competitiveness on the domestic market, increased imports of meat and dairy products, and vegetables, together with declining prices.

In the case of statement indicators (assets, liabilities, and equity), their year-on-year growth increased at the end of 2005 in connection, inter alia, with new manufacturing capacities, re-evaluation of assets, and the inclusion of emission permits.

Financial results were significantly and positively influenced by the development taking place in the 4th quarter of 2005, when outputs prevailed over the intermediate consumption and slower growth in total costs, when

Results of the 4th quarter significantly influenced the year-on-year development

² Foundation of new companies, some of which have been included, on the basis of their prevailing industrial activity, also in the non industrial sectors - commerce, services for businesses, transport, and communications.

compared with revenues, were reported. This reflected in the relatively high growth in the book value added, when the gross profit increased year-on-year only in this quarter. The development in the 4th quarter of 2005 thus significantly differed from previous years, when the results in the 4th quarters were usually the worst.

Results of the financial indicators, when compared year-on-year, were as follows:

Book value added significantly grew only in services for businesses

The prevailing growth of the intermediate consumption (10.1%) over the growth in outputs (8.8%) reflected in slower rises in the book value added (from 11.2% to 5.5%, see Table No. I.6.1).

From the industrial structure point of view, there was high year-on-year growth in the book value added in services for businesses (this includes also the newly founded companies occurring in the result of the restructuring of energy distributing firms). Another industry, which speeded up growth in the book value added, was the construction industry. Growth in value added in industry was slightly under the average of the non financial sector. The growth was very low in transport, warehousing, and communications.

Table No. I.6.1 Year-on-year development in the book value added and the labour productivity based on value added in current prices (organisations with 100 or more employees)

	Book value added)				Book value added	
	in billion CZ	Structure in %	Y-o-y change in %		per employee	
			2005/2004	2004/2003	in thous. CZK	Y-o-y chan. in %
Non financial sector	986.2	100.0	5.5	11.2	637.2	4.2
thereof:						
Industry	626.0	63.5	5.4	14.5	708.3	4.3
Construction	42.7	4.3	7.1	5.2	562.9	5.6
Commerce	83.4	8.5	6.8	13.6	537.6	-0.6
Accommodation and catering	9.8	1.0	-1.3	17.0	458.9	-4.3
Transport, warehousing, and communications	131.7	13.4	1.1	0.5	639.9	4.5
Real estate, services for busin., and research	49.7	5.0	27.6	5.6	518.4	19.0
Other services	25.9	2.6	1.6	16.2	460.1	-2.9
Agriculture, forestry, and fisheries	17.2	1.7	-5.3	-2.2	318.2	1.6

Source: CZSO

High growth in the book value added in the 4th quarter of 2005

The outstanding growth in the book value added in the 4th quarter of 2005 (by 10.6% year-on-year) related to most industries within the non financial sector, e.g. services for businesses increased by 35.3%, construction by 15%, and industry by 10.4%.

Employment grew, while the labour productivity slowed down its growth

The labour productivity based on value added slowed down its growth from 11.4% (in 2004) down to 4.2% and reached CZK 637.2 thousand per employee. Industry still retained its highest level, which was more than 11% above the average of the non financial sector. Employment in the non financial sector increased year-on-year by 1.1% and the increases took place in most industries (with the exception of agriculture, forestry, fisheries, transport, warehousing, and communications). Employment data include only permanent workers, while many companies (especially in industry) used also services of job agencies and this means that the labour productivity data are not completely precise.

Gross profits slightly decreased...

The above-mentioned influences impacting the book value added reflected consequently in total revenues and costs, and thus also in the gross profits. **Growth in revenues (8.5%) lacked behind the growing costs (9%)** in 2005 and the gross profits thus slightly decreased year-on-year (by 0.3%), down to CZK 262.4 billion.

The gross profit increased year-on-year in the 4th quarter of 2005 by 15.3%, but this could not settle the losses incurred in the previous quarters - see Table No. I.6.2 presenting also changes in both profit making and loss making organisations.

Table No. I.6.2 Profits before tax, changes in profits and losses (organisations with 100 or more employees)

	Before tax result			Y-o-y increase/ decrease in billion CZK	Impact on y-o-y change in billion CZK	
	In billion CZK	y-o-y change in %	Share in %		Profit	Loss
Non financial sector thereof:	262.4	-0.3	100.0	-0.9	13.8	-14.7
Industry	186.0	3.5	70.9	6.3	16.1	-9.9
Construction	11.3	16.2	4.3	1.6	1.9	-0.3
Commerce	16.4	-13.4	6.2	-2.5	-1.8	-0.7
Accommodation and catering	1.6	-46.8	0.6	-1.4	-1.0	-0.4
Transort., warehousing, and communication	31.2	-14.4	11.9	-5.2	-2.3	-3.0
Real estate, services for businesses, and researchm	8.3	34.4	3.2	2.1	2.0	0.1
Other services	5.1	-20.3	1.9	-1.3	-1.1	-0.3
Agriculture, forestry, and fisheries	2.6	-12.7	1.0	-0.4	0.0	-0.3

Source: CZSO

The year-on-year **decreases in the gross profits** (CZK 0.9 billion) was negatively influenced by the slightly prevailing **non production factor**³ caused by the worse balance of other revenues and other costs (by CZK 14.2 billion). **The production factor**⁴ **was positive**, when the net operating surplus increased year-on-year by CZK 13.3 billion. The highest negative influence of the non production factor occurred in commerce, transport, warehousing, and communications.

... while negative impacts of the non production factor slightly prevailed

The data in Table No. I.6.2 show that **the gross profits increased only in the three following industries**: In services for businesses (by more than 34%), in construction (by 16.2%), and in industry (by 3.5%), thanks to the extraction of raw materials and the energy industry.

Loss making organisations made up more than 23% of total number of organisations (1 017 businesses), **the number of which increased** by 19.5%. Their **loss increased** by 47.2%, to CZK 45.8 billion, practically in all industries within the non financial sector, with the exception of services for businesses. The biggest volume of loss increased in the non financial sector belonged to industry (the impact of the manufacturing industry), to communications, additional activities in transport and air transport. **The number of profit making organisations** slightly **decreased** year-on-year (by 1.7%) to 3 337 businesses, while **their gross profits grew** by 4.7%, to CZK 308.2 billion. The gross profit in the profit making organisations grew only in industry, services for businesses, and construction.

The loss increased by almost one half

Outputs grew more in the revenue structure (by 9.3%). They made up about 68% of total revenues and they were followed by proceeds from sale of goods (the increase by 7.1%) with the share of almost 25% in the revenues. Other revenues grew the least (by 6.5%) with the share of less than 8% in the total revenue. The commerce differs in its revenue structure because proceeds from sale of goods are decisive there (about 88%), while outputs are decisive in other industries.

Outputs decide on the growth in revenues

³ Non production factor = the year-on-year balance of other revenues and other costs.

⁴ Production factor = the year-on-year change in the net operating surplus = book value added - personal costs - depreciation.

Growth in total costs (by 9%) was **influenced most by the intermediate consumption** (10.1%), which thus increased its share by 0.5 percentage point, to 53.7%. Costs related to goods slightly lowered by 0.2 percentage point, to 22.7%, while the volume grew by 8.2%. The third rank belonged to the share of personal costs (11%) with the slight year-on-year growth by 0.2 percentage point and the volume increase by 7.2%. The highest year-on-year growth was reported by other costs (10.8%) and their share in total costs was 8.2% (the increase by 0.1 percentage point). Depreciation grew the least (only by 1.9%) and the share in costs decreased by 0.3 percentage point, down to 4.4%. The volume of depreciation decreased year-on-year in the three industries. It was the most significant in commerce (by 3.7%), while it increased in industry (by 2.1%).

Liabilities and equity grew faster

New production capacities and re-evaluation of assets reflected in growing **total liabilities and total liabilities thus increased** year-on-year by 7.4%, to CZK 3 864.4 billion. Their growth was reported by all industries (with the exception of agriculture, forestry, and fisheries). The biggest increases took place in services for businesses (17.7%), followed by the commerce (12%) and industry (7.8%). **Equity grew more** in liabilities (8.4%) to CZK 2 070.7 billion than **foreign resources** (6.3%). Overextended businesses (204) made up 4.7% of the total number of organisations, the negative equity of which increased year-on-year by 6%, to CZK 25 billion.

The year-on-year changes in the gross profit and equity reflected in **the declining return on equity**⁵ by 1.1 percentage point, down to 12.7%, while it increased only in services for businesses and in construction.

Growing inventories slowed down by a half

Total inventories increased year-on-year by 4.3% to CZK 400.4 billion (8.6% in 2004). Stock in non industrial sectors grew more, e.g. in services for businesses by 38.5%, in transport, warehousing, and communications by 15.9%, while by only 3.5% in industry, where the biggest share belonged to the non financial sector (about 66%). The year-on-year lower stock existed in agriculture, forestry, and fisheries (by 5.2%) and in construction (by 1.1%). In the stock structure, the own produced stock increased most (by 14.7%), to CZK 160.3 billion, followed by stocked goods (by 3.7%) increasing to CZK 107.3 billion. The material stock decreased by 5.5%, down to CZK 132.5 billion.

The inventories' turnover (calculated towards total revenues⁶ **speeded up year-on-year** by 1.3 days, to 32.3 days. It slowed down in the three following industries: In services for businesses, transport, warehousing, in communications, and in other services.

The number of declared bankruptcies continued to fall

The strong economic growth and thus the better financial situation of enterprises progressively improved the business environment. This positively reflected in the lower number of bankruptcies. Their number achieved **the lowest value for last eight years**, when the highest number was reported in 2000. The number has been decreasing ever since. The bankruptcy development was influenced not only by the economic cycle, but also by competition pressures and changes in the legal system. We might assume that the delay in their legislative adjustment also influences their lower number.

The number of declared bankruptcies continued to fall in 2005 (by 14.2% year-on-year, down to 1 236). The number of settlements was minimal and settlements were declared only in six cases. **The number of processed bankruptcies** had been rising for several years and **the growth** reported in 2005 reached 1.9% (4 870).

The number of proposed bankruptcies increased

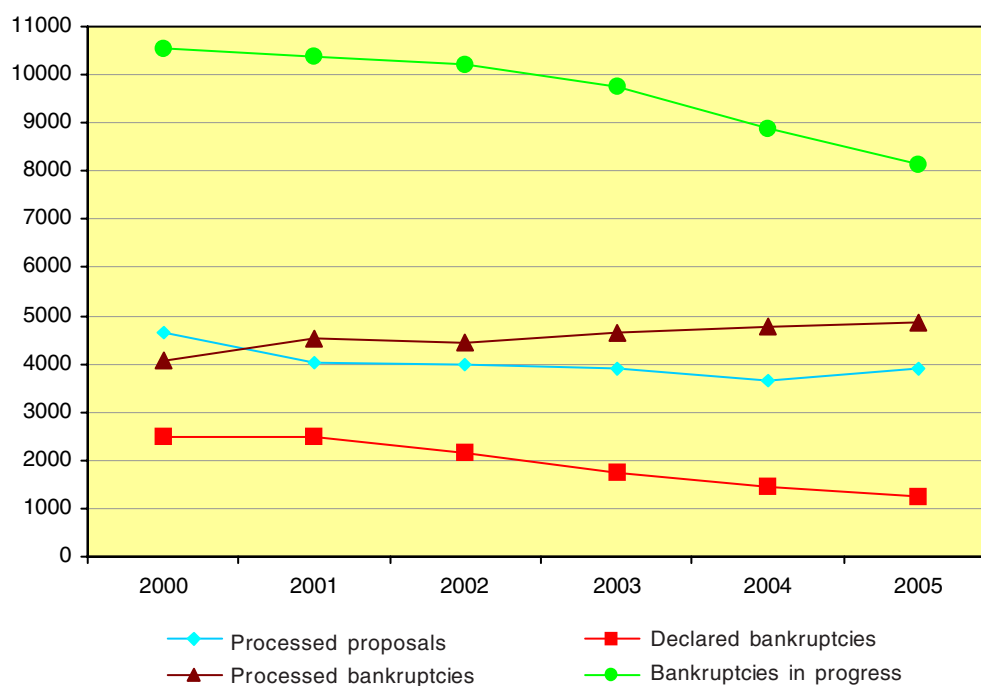
The number of proposed bankruptcies and settlements increased year-on-year in 2005 by 6.6% (up to 3 882), while the number lowered in the previous four

⁵ Return on equity = an economic result before tax in the followed period/equity at the period end

⁶ Total revenue = proceeds from the sale of own production + proceeds from the sale of goods

years. Bankruptcy proposals may be refused by courts because of a shortage of assets, when it has been clear that the debtor's assets would not cover the bankruptcy costs. There were 1 159 proposals in total refused because of this reason and their number rose during recent years (e.g. they were only 889 proposals in 2004).

Graph No. I.6.1 Development in bankruptcies and settlements since 2000



Source: Ministry of Justice, MIT Graph

The number of bankruptcies in progress decreased to 8 135 (by 8.3%) at the end of 2005. The number includes 874 proceedings related to bankruptcy proposals and 7 261 proposed bankruptcies. There were 29% of cases processed within the period of three years, but there were still more than one thousand declared bankruptcies, the processing of which took longer than seven years (14%).

The register of bankrupt entrepreneurs, managed by the Ministry of Justice, shows that 64.1% of bankruptcies related to propriety limited companies. The share increased by 2.5 points. This kind of companies participates in the number of economic subjects with less than 10%. Natural persons (trade people), who prevailed in the registered subjects (74.5%) participated in bankruptcies with about one fifth (the year-on-year decrease by 2.9 points). The share of joint stock companies was 10% and other forms of enterprises participated in bankruptcies with 5.2%.

Almost two thirds of bankruptcies related to propriety limited companies

II. INDUSTRY

II.1. Production, employment, and productivity

Industrial production⁷ was growing mostly fast during the last six years and growth reached 5.7% in 2005 (9.5% in 2004).

Industrial production continued growing

The growth was supported by further investments from abroad and **the starting of new production capacities**, especially in **the automotive industry**. Also, production capacities related to the manufacture of components and spare parts for the automotive industry developed and the traditional mechanical engineering industry recovered. Structural changes within the manufacturing industry continued and reflected in the growth taking place in sub sectors manufacturing technologically more advanced products of a higher value added. However, the slump continued in the leather industry and partly also in the textile industry, thanks to cheap imports of consumer goods.

Revenues (in constant prices) increased by 8.1% (by 9.9% in 2004) and got thus in front of the production growth. Revenue from direct exports increased by 10.2%. This proved that the production found its utilisation on both domestic and foreign markets. Improvements in the technical standards of products and the technological level of manufacture, together with the increased labour productivity and competitiveness allowed most companies to balance the strengthening Czech currency.

The connection of the development in industrial production and exports is presented in Graph No. II.1.1. The increasing dependency on exports results from

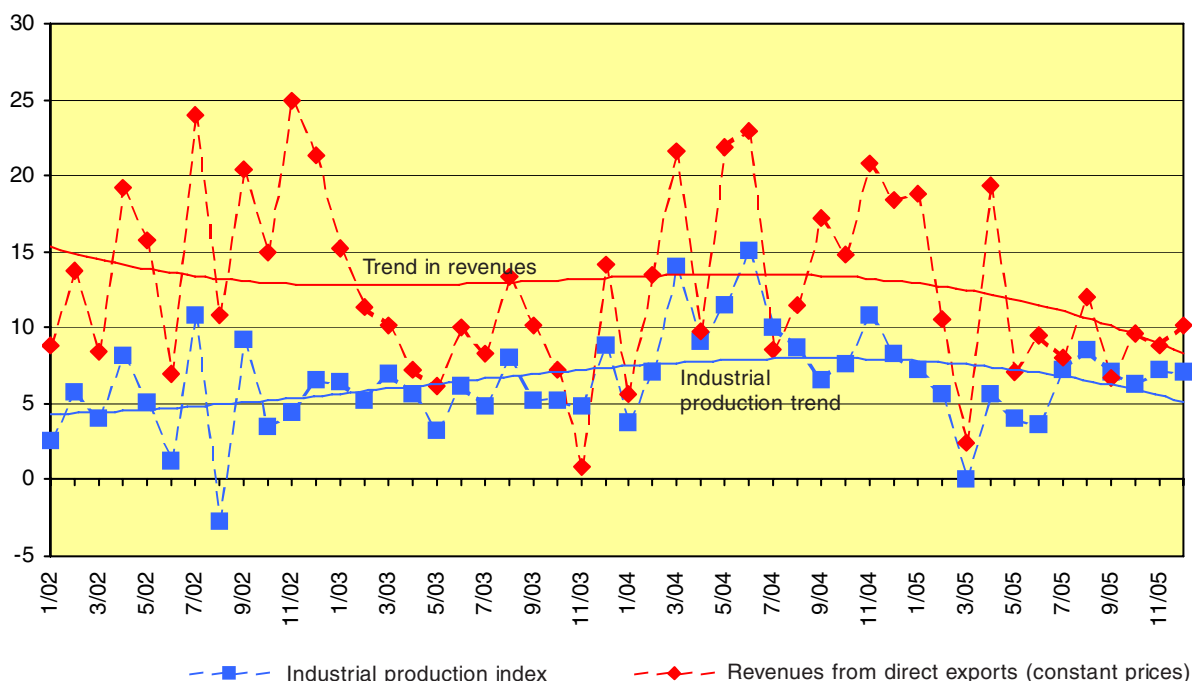
⁷ CZSO has changed the methodology for the calculation of the industrial production index as from January 2006. The former way of calculation was based on the monthly monitoring of the industrial production volume of about 1 600 representatives, mostly in natural units. This system has become obsolete. Fast structural changes in the consistency of industrial production, with not balanced impacts on product aggregation indices (representing segments, sub sectors, and sectors) were the reasons behind this change in the methodology. The former way included situations, when individual indices, of values getting even over thousands %, could be only negligibly compensated by the indices approaching zero in their value. The high number of monitored products also significantly limited the in time finding of defect representatives and their effective exchange.

According to foreign experience, a new variant of the calculation has been opted for. It caused a shift from the product method towards the enterprise one in the case of the majority of sub sectors. Revenues from the sales of own products and services, of the industrial nature in constant prices, were selected as the suitable basic indicator. The new calculation uses the existing scheme of weights based on the structure of the gross value added in industry in 2000. CZSO has recalculated the time lines, according to the new methodology, back as from 2000.

For example, the industrial production index was 105.7% in 2005, according to the original methodology, while it is 106.7%, according to the new one. Some contradicting tendencies occur within individual sub sections. In order to ensure the continuity with the already prepared analyses in individual quarters, and because of the utilisation of detailed data (4-digit IPP in selected CPA classes), which will not make parts of the new methodology, the analysis of 2005 has been still be prepared in accordance with the old methodology for the calculation of the industrial production index.

it (the value of the correlation coefficient is 0.69). The trend of slower growth results especially from the high base in 2004.

Graph No. II.1.1 Development in industrial production and in revenues from direct exports
(the year-on-year change in %)



Source: CZSO, MIT calculations and Graph

According to **main industrial groupings, the manufacture of intermediate products** retained its dynamic development with the growth by 10.3% year-on-year (by 12.9% in 2004), especially thanks to the continuing co-operation and utilisation of cheaper work costs within multinational companies, which transfer some parts of their manufacture into the Czech Republic. Other groupings reported slower growth, including **the production of long-term consumption goods** by 3.2% (from 11.2%) and the manufacture of **products of the investment character** by 3% (from 15.2%). The slowdown was influenced by the high comparison base after the accession of the Czech Republic to EU under the influence of investment incentives and other favourite conditions attracting more foreign enterprises, which invested in the country. **Energy production** increased by 2.4% and **the manufacture of short-term consumption goods** increased by 2.2%.

The raw material section reported slight growth in production

The development in **the raw material section** was influenced by **the lower demands related to energy materials** (bigger decline in the extraction was experienced in the 1st quarter) because of lower power production in steam power plants, which was, at least partly, compensated by the continuing favourable development in the construction industry. The production grew slightly by 0.4%, while revenues (in constant prices) were lower by 3.1%, the revenues from direct exports (in constant prices) reported, in contrast, significant growth by 23.1%, thereof 17.6% in the extraction of energy materials and 33.8% in the extraction of other minerals. In natural units, the extraction of brown coal slightly grew by 0.6%, thereof the brown energy coal by 0.5% (with the decisive share of 91.9%). The extraction of black coal lowered by 0.4%, including the coal suitable for coking by 2.5%, while the extraction of black energy coal reported the growth by 2% (it participated in total extraction with 46.1%). Revenues from direct exports (in constant prices) increased in the case of black coal by 25.5% and in the case of brown coal by 6.9%.

Table No. II.1.1 Industrial production and revenues in 2005 (organisations with 20 or more employees, the year-on-year change in %)

	1st Q	2nd Q	3rd Q	October	Novem.	Decem.	4th Q	2005
Industrial production index								
Total industry	4.0	4.5	7.6	6.3	7.2	7.1	6.8	5.7
C Mining and quarrying	-3.9	6.2	-3.9	0.1	5.1	3.4	2.9	0.4
D Manufacturing industry	4.2	4.6	8.1	6.6	7.6	7.5	7.2	6.0
E Electricity, gas, and water supply	-1.1	0.5	-2.8	-1.0	-3.5	0.1	-1.5	-1.2
Revenues from the sale of own products and services (in constant prices)								
Total industry	5.5	8.0	8.9	9.5	11.3	8.4	9.8	8.1
C Mining and quarrying	-7.4	-5.1	-4.3	4.7	2.0	6.5	4.3	-3.1
D Manufacturing industry	5.5	8.5	9.4	9.9	11.9	8.3	10.1	8.4
E Electricity, gas, and water supply	9.3	5.1	5.1	4.6	7.1	10.0	7.5	7.0
Revenues from direct exports (in constant prices)								
Total industry	10.2	12.1	9.7	8.8	10.2	6.7	8.7	10.2
C Mining and quarrying	24.6	12.6	23.6	22.4	36.7	38.8	33.1	23.1
D Manufacturing industry	10.6	12.2	9.6	8.7	10.0	6.5	8.5	10.2
E Electricity, gas, and water supply	-44.7	-3.4	20.8	28.7	31.0	24.4	28.0	-4.2
Share of revenues from direct exports (in constant prices) in total revenue of the section (in %)								
Total industry	54.6	54.7	53.3	53.6	52.8	50.0	51.9	53.6
C Mining and quarrying	11.1	11.1	11.5	8.2	8.9	11.6	10.6	11.1
D Manufacturing industry	60.4	58.6	56.9	57.6	57.0	54.2	56.4	58.0
E Electricity, gas, and water supply	2.8	5.0	6.5	5.5	4.7	3.9	4.6	4.5

Source: CZSO

Production of **other mineral materials increased, thanks to the favourite development in construction**, by 2.4%. In natural units, the extraction of granite increased by 10.6% and the extraction of natural sand by 2.4%. Among non construction materials, the extraction of kaolin and kaolin clays reported the increases by 8.2%. The sub section reported significant increases of revenues from direct exports (in constant prices), including lime chalks by twenty-six times, kaolin by almost six times, and the extraction and treatment of other not classified minerals (graphite, quartz, quartzite, mica, feldspar, and asbestos) by almost twice.

The production declined in **the energy section** by 1.2%, while revenues increased (in constant prices) by 7% and decreasing revenues from direct exports (by 4.2%). The net production of power declined in the natural units by 2.2%, in the structure of production in steam power plants by 1.4% (the share of 62.1%). It decreased also in nuclear power plants by 6.3% (the share of 30.5%) in the 3rd and partly also in the 4th quarters because of the general repairs in the nuclear plant Temelín. The production in water power plants reported growth by 18.1%, but at its low share (4%).

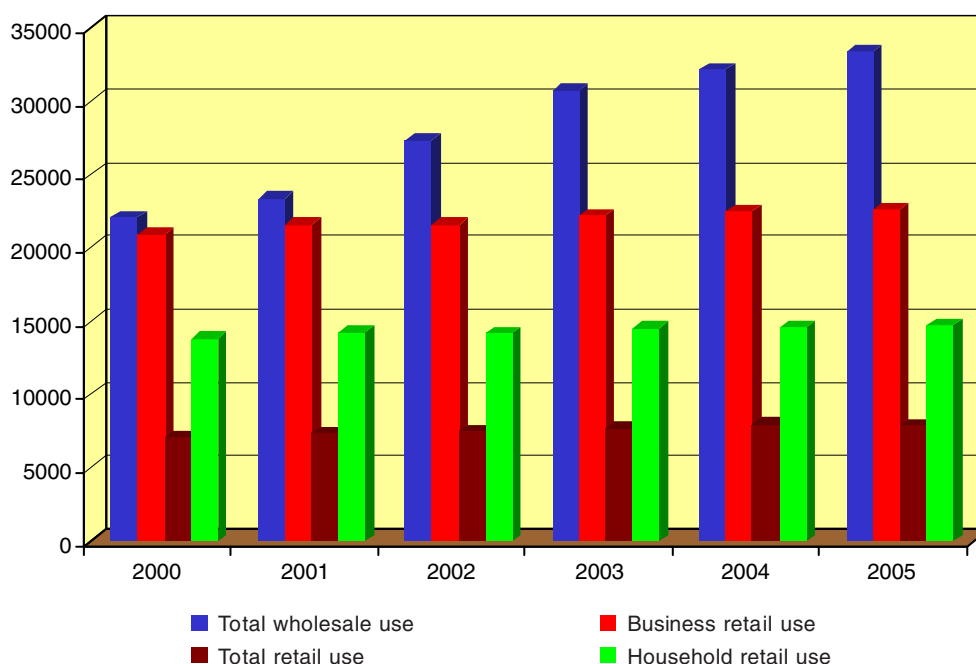
The production within the energy section decreased

The year-on-year **slowdown in the industrial production showed also in the domestic consumption of power**, which increased by 2.3% (by 2.9% in the previous year). This included the increase by 3.9% (from 4.9%) at wholesale customers and the increase by 0.7% (from 1.1%) at retail customers. In the retail customer structure, the consumption by households increased by 1.3% (with the share of 65.1% in total retail use), while the business retail use slightly decreased by 0.4%.

The lowering of the production of power reflected in lower total exports (by 2%),

which represented almost one third of the total net production. In contrast, total exports increased by 26.3%, i.e. 16.2% of the net production.

Graph No. II.1.2 Development in wholesale use and in retail use of power (in GWh)



Source: MIT, MIT Graphramen: MPO, graf MPO

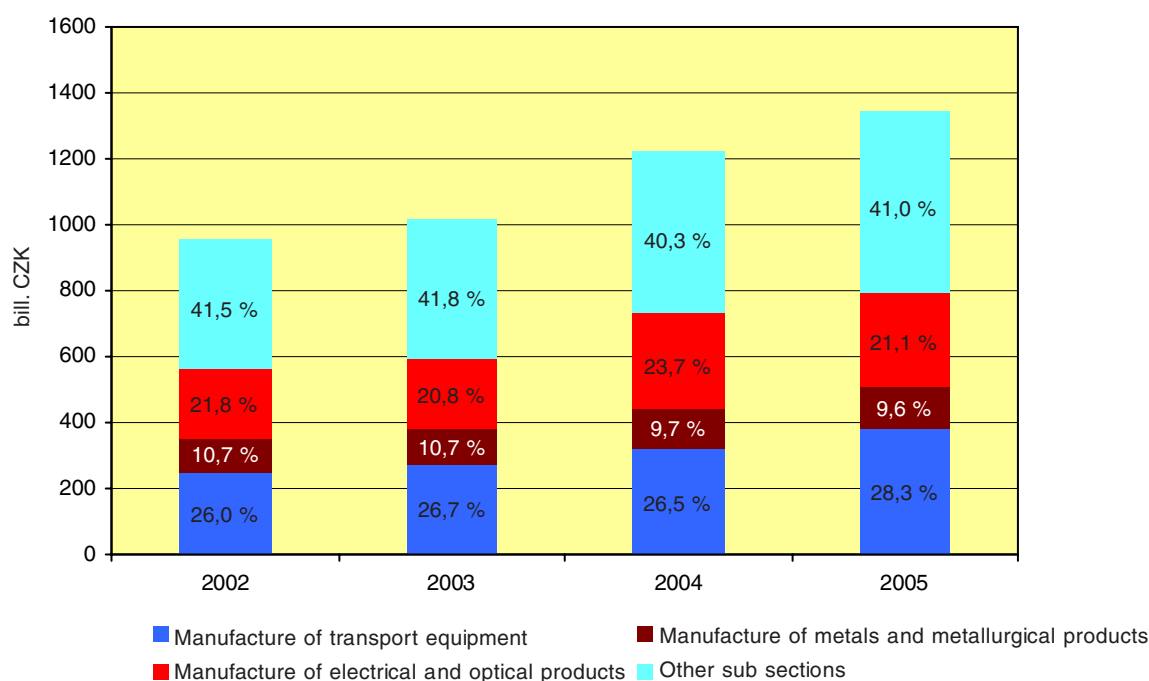
The manufacturing industry was strongly influenced by the high performance of enterprises under foreign control

The development in the manufacturing industry was influenced by the growth in sub sections with high shares of foreign capital and the production determined mostly for exports. The industrial production increased in this section by 6%, the revenues (in constant prices) by 8.4% and revenues from direct exports (in constant prices) by 10.2%. These participated in the total section revenue with 58% (the revenue shares from direct exports in total revenue and in section, sub section, and segment revenues are presented in Table II. Industry in the part with annexes).

The automotive industry was influenced by increases in the production of Škoda Auto and by the started production in TPCA Kolín

Growing demands related to cars of the Škoda make, Octavia, made in the joint stock company Škoda Auto, together with the started manufacturing in the new car making plant TPCA in Kolín at the end of February 2005 and its progressive increasing of the production (almost complete production is determined for exports) reflected in the decisive sub section, in the manufacture of transport equipment by the significant growth in production by 19.2%. The revenue (in constant prices) increased by 22.9% (with the share of 19.3% in the industrial revenue). Revenues from direct exports (in constant prices) increased by 18.8% (with the share of 19.3% in the industrial revenue), the revenues from direct exports (in constant prices) by 18.8% (they participated with 78.8% in the revenues from the sale of own products and services and with 15.2% in the total industrial revenue). The focus on exports showed in the share of sub section in the total revenue from direct exports with 28.3% (Graph No. II.1.3). The manufacture of cars reported the substantial growth by 35.4% (the domestic sales increased by 1% and exports by 10.6%). The manufacture of buses also grew by 11.3% and of small utility cars by 8.7%. In contrast, some decrease took place in the manufacture of motorcycles and scooters (by 10%) and of trucks (by 7.1%). There were the biggest volumes of new orders concluded in this sub section. They participated in total orders in selected segments with 26.9%. This includes 31.2% of foreign orders.

Graph No. II.1.3 Shares of individual sub sections in total revenues from direct exports (in %, constant prices)



Source: CZSO, MIT calculations

The growing demands and **the started production in new manufacturing capacities** put into operations in new industrial zones, with the participation of foreign capital, reflected in **the manufacture and repairs of machines and equipment** with the growing production by 13.3% (by 3.6% in the previous year), with increasing revenue (in constant prices) by 14.1%, and with revenues from direct exports (in constant prices) by 17.8%. The most pronounced increase in the manufacture was reported by the manufacture of cooling, ventilation, and air-conditioning equipment (by 65.6%). Increases in other groups were reported by the manufacture of pumps and compressors (by 26.4%), the manufacture of valves and fittings (by 24.9%), the manufacture of bearings and gears (by 15.9%), and the manufacture of building and mining machines (by 11.2%). Higher demands reflected in the higher total number of concluded orders, especially from abroad. This confirmed the continuation of the favourite development in the sub section.

Demands for products of the mechanical engineering industry grew

The favourite development in the **production of coke and refinery processing of oil** was influenced by higher imports of crude oil (by more than one fifth in natural units) and its processing (its share in total revenue is 90.2%). The production increased by 12.6%, while the revenue decreased by 1.3% (in constant prices) because of the transfer of the joint stock company Česká rafinérská to reprocessing mode, which caused the lower revenue. The revenue from direct exports (in constant prices) also decreased by 3%. Imports of crude oil from Russia (with the share of 71.1%) increased in natural units by 23.4% (by 9.4% in the previous year). In contrast, thanks to the extraction limits of the Czech Republic, exports of oil decreased by 9.4%. However, its share was very low and represented only 0.7% of the total volume of imports.

Growing production of refineries was influenced by increased imports of oil and by its processing

The continuing **entries of the foreign capital** to enterprises manufacturing plastic parts determined for the automotive industry, construction, and other manufacturing industries favourably reflected in **the manufacture of rubber and plastic products** by the increased production by 11.5%. The revenue (in constant prices) increased by 12.6% and revenues from direct exports (in constant prices) by 11.4%. High increases were reported also by the manufacture of other rubber products (India rubber in its primary form, rubber boards, belts, and hoses) by

The manufacture of rubber and plastic products was driven by the automotive industry and construction

29.2% and the manufacture of other plastic goods (plastic parts and accessories for transport vehicles and insulating parts for electric machines) by 17.5%. In connection with the favourite development in construction, the manufacture of plastic products, determined for the construction industry, also increased by 18.2%. The increases in the manufacture of tires and tubes were this time lower (by 4.6%).

Growing demands for products by the furniture industry

The production **in the manufacturing industry not elsewhere classified** increased by 9.2%, while the revenue grew (in constant prices) by 8.2%. The growth was supported not only by **growing demands**, especially the export ones reflected in the high growth in revenues from direct exports (in constant prices) by 20.6%, but also **by the favourite development in construction**. The manufacture of furniture had the decisive place in the sub section (it participated in the total revenue with 65.5%) and dynamics in the manufacture of seating furniture grew by 29.5%, while it grew by 30% in the manufacture of other office furniture. In other segments, the growth was not as sharp as the manufacture of sport equipment increased by 7.4% and the manufacture of musical instruments and toys by 3.4% (with the small share of 3.1%, 2.1% respective, in the total revenue).

Higher growth in production occurred in the manufacture of pulp and paper products

The manufacture of pulp, paper products and printing had been retaining the high pace of growth already for three years - by 7% in 2005 (by 8.6% in the previous year). The revenue (in constant prices) increased by 6.2% and revenues from direct exports (in constant prices) by 12.2%. In individual segments, higher production was reported by the manufacture of pulp, paper and paper products (by 8.5%, with the share of 52.5%) within which the manufacture of paper and cardboard increased by 16.6% and that of pulp and corrugated cardboard identically by 4.5%. The manufacture in publishing and printing grew by 4.5% with the most significant increases in book publishing (by 29.8%). Newly concluded orders related to the production of pulp, paper and paper products increased only negligibly by 0.7% (they participated in the total number of orders with 3.4%). This includes foreign orders, which grew by 8.9%.

Foreign demands for the production by the chemical industry increased

Growth in both domestic and especially foreign demands, together with the maximal utilisation of existing and newly constructed manufacturing capacities and favourite petrochemical margins provided for the decisive contribution to the rising production in **the manufacture of chemicals, preparations, medicine, and chemical fibre** by 7%. The revenue (in constant prices) increased by 5.7%, while revenues from direct exports (in constant prices) grew by 14.5%. Lively demands on both domestic and foreign markets and the favourite petrochemical margins contributed to this better performance. Among individual product groups, high increases were reported by the manufacture of medicine and healthcare products (by 24.3% with the share of 13% in the total revenue), the manufacture of soap, detergents, cleaning and polishing products (the slower growth by 10.3%, with the share of 2.7%), and the manufacture of plastics in their primary forms (by 9.8% and the share of 36.5%). The favourite development in the demands contributed also to the higher number of newly concluded orders by 6.1% in total (the share of 7.6% in the total number of orders), by 11.9% in the case of included foreign orders.

Slower growth in production took place in the electric engineering industry

The production in the second most important sub section - **the manufacture of electric and optical equipment**, grew by 5.2% in 2005 after the years reporting mostly high growth (by 13.5% in the previous year). Revenues (in constant prices) increased by 8.2%, while the revenues from direct exports (in constant prices) decreased by 2.7%. In individual parts, especially strong growth in production was reported by the manufacture of office equipment and computers (by 22.7%) and the manufacture of electric machines and equipment (by 38.6%). The manufacture of electric equipment for machines and vehicles, within that second group, increased almost fivefold in connection with the favourite development in the automotive industry and in the mechanical engineering. Its share in the total

revenue of the sub section was 10.9%. The manufacture of radio and television sets increased by 3.6% and the manufacture of healthcare, precise, and optical time measuring equipment grew by 0.1%. The high growth in the total number of concluded orders took place in the manufacture of healthcare and precise instruments and in the manufacture of office equipment and computers (by 17.2%, by 15.2% respectively). In the case of foreign orders, a significant increase was noted in the manufacture of radio and television sets - by almost one half.

The production in **the manufacture of food, beverages, and tobacco products** grew by 1.7%, while the manufacture of food products and beverages (with the decisive share of 94.8%) increased by 1.3%. Faster growth was reported by the manufacture and processing of tobacco (by 8%), while the revenue in this sub section (in constant prices) decreased by 2.5% and revenues from direct exports (in constant prices) increased by 15.8% (in the case of the manufacture of food and beverages by 18.3%). Among individual product groups, the higher increases took place in the manufacture of refined oils and fats (by 18.9% and the share of 2.9%), while the growth was milder in the manufacture of milk, butter, and cheeses (by 6.5% and the share of 15.5%). In contrast, lower production was reported in the case of beef (by 16.2% and the share of 19.2%) and pork (by 9.8% and the decisive share of 80.7%). The manufacture of lamb, in contrast, increased by a quarter.

Faster growth in the tobacco industry

Problems in supplies of wood, especially in small and medium size sawmills, prevailed with more or less intensity during the entire year. The production in **the wood processing and manufacture of wooden products** reported the negligible growth by 0.6%, while the revenue increased (in constant prices) by 6.5% and revenues from direct exports (in constant prices) by 15.3%. In individual product groups, the highest increases took place in the building joinery and carpentry (by 7.4% and the share of 30.6%), within which the manufacture of wooden doors, frames, and sills increased by 11.1%, thanks to the favourite development in construction.

Mild growth in the production within the wood processing

The production declined in four sub sections within the manufacturing industry. They participated with 18.4% in the total revenue. In addition to the long-term declining manufacture of leather and leather products and the manufacture of textiles, textile products and clothes, the decreases took place in the manufacture of basis metals, metallurgical and metal working products (in the result of the worsening prosperity in the market with steel and iron) and in the manufacture of other non metallic mineral products.

The production declined in four sub sections

The long-term slump in the **manufacture of leather and leather products** continued also in 2005, by 4.6% this time, while the revenue slightly grew (in constant prices) by 3.6% and revenues from direct exports (in constant prices) decreased by 10%. The development in this sub section was **influenced in the negative way by high imports of cheap shoes from China**. This trend was also influenced by the unsatisfactory domestic assortment on the offer and by the low competitiveness. Domestic manufacturers thus specialised on the introduction of products with a higher share of value added, with specific characteristics of the use, and better quality parameters. The manufacture of shoes slumped, year-on-year, by 10.5%. The share of the manufacture of shoes in the revenue from the sale of own products and services in organisations with 20 or more employees exceeded 53%, while the share of the leather processing amounted only to 5%.

Imports of shoes especially caused the slump in the leather industry

Both production and revenue (in constant prices) decreased **in the manufacture of textiles, textile products and clothes** by 3.6%, by 3.1% respectively, while revenues from direct exports (in constant prices) stagnated. As for the structure of the manufacture of textiles and textile products, lower decreases were experienced by the production (by 1% and the share of 79.1%), while the manufacture of clothes and the processing and dyeing of fur decreased by 13.1%. **The growing pressure**

Increased imports reflected also in sale problems of the clothing industry

of increased Asian imports to the EU markets reflected in this area as well. The high competitiveness prevailed especially in the manufacture of products based on cotton and synthetic fibres, but also in the case of knitted underwear and clothes. The total number of concluded orders decreased in the clothing industry by 14.8% (they participated in the total number of orders with 0.5%), while foreign orders stagnated. Newly concluded orders in the textile industry were lower in their number by 8.4% (with the share of 2.7% in the total number of orders), but foreign orders slightly increased by 0.3%.

The industrial production declined also in other sub sections last year. That happened because of the milder prosperity in the market with steel and iron within **the manufacture of basic metals, metallurgical and metal working products** (by 2.1%, the increase by 23% in the previous year). As for the structure, the decrease by 5.4% (the share of 51%) was experienced in the manufacture of basic metal and metallurgical products, while the manufacture of steel constructions and the metal working manufacture increased the production by 4.9%.

The production of **the manufacture of other non metallic mineral products** decreased year-on-year by 1.5%. That included the decreases in the manufacture of hollow glassware (by 13.2% and the share of 8.7%), the manufacture of ceramic tiles (by 6.7% and the share of 5.9%), and the manufacture and forming of other glassware (by 4.4% and the share of 11.1%).

Table No. II.1.2 Development in the industrial production by economic activity
(organisations with 20 or more employees, the year-on-year change in %)

	2003	2004	2005				
			1st Q	2nd Q	3rd Q	4th Q	Year
Total industry	5.8	9.5	4.0	4.5	7.6	6.8	5.7
Mining and quarrying	0.5	-0.5	-3.9	6.2	-3.9	2.9	0.4
thereof:							
Extraction of energy raw materials	-0.4	-2.2	-5.5	4.2	-5.3	4.9	-0.4
Extraction of other minerals	2.9	3.8	2.0	10.9	-0.7	-2.3	2.4
Manufacture and distribution of power, gas, and water	8.9	0.9	-1.1	0.5	-2.8	-1.5	-1.2
Manufacturing industry	5.8	10.3	4.2	4.6	8.1	7.2	6.0
thereof:							
Man. of food, beverages, and tobacco prod.	2.8	0.2	0.3	4.2	1.7	0.6	1.7
Man.e of textiles, textile prod., and clothes	-2.8	-1.2	-3.1	-5.3	-2.7	-3.2	-3.6
Man. of leather and leather products	-19.3	-4.3	-14.6	-0.6	-2.6	-0.2	-4.6
Processing of wood and the man. wooden products, with the exception of furniture	5.7	6.2	-10.8	3.4	2.5	6.1	0.6
Man. of pulp, paper, and paper products	9.5	8.5	4.6	7.3	9.0	7.0	7.0
Man. of coke and refining of crude oil	3.6	4.0	12.5	18.4	20.3	0.8	12.6
Man. of chemicals, preparations, and fibres	7.0	6.4	5.9	3.8	7.4	11.5	7.0
Man. of rubber and plastic products	13.8	9.7	8.7	11.8	15.7	10.4	11.5
Man. of other non metallic mineral products	5.7	5.1	-6.3	-1.4	0.2	0.5	-1.5
Man. of basic metals and metal working prod.	4.5	23.5	-2.0	-7.7	-4.0	6.2	-2.1
Man. and repairs of machinery and equipment not classified elsewhere	6.4	3.4	14.1	15.6	13.8	9.7	13.3
Man. of electrical and optical equipment	2.9	13.5	4.1	4.0	8.1	5.2	5.2
Man. of transport equipment	12.4	14.1	9.3	16.5	24.3	26.9	19.2
Man. industry not classified elsewhere	-0.1	8.3	4.4	9.0	7.5	14.6	9.2

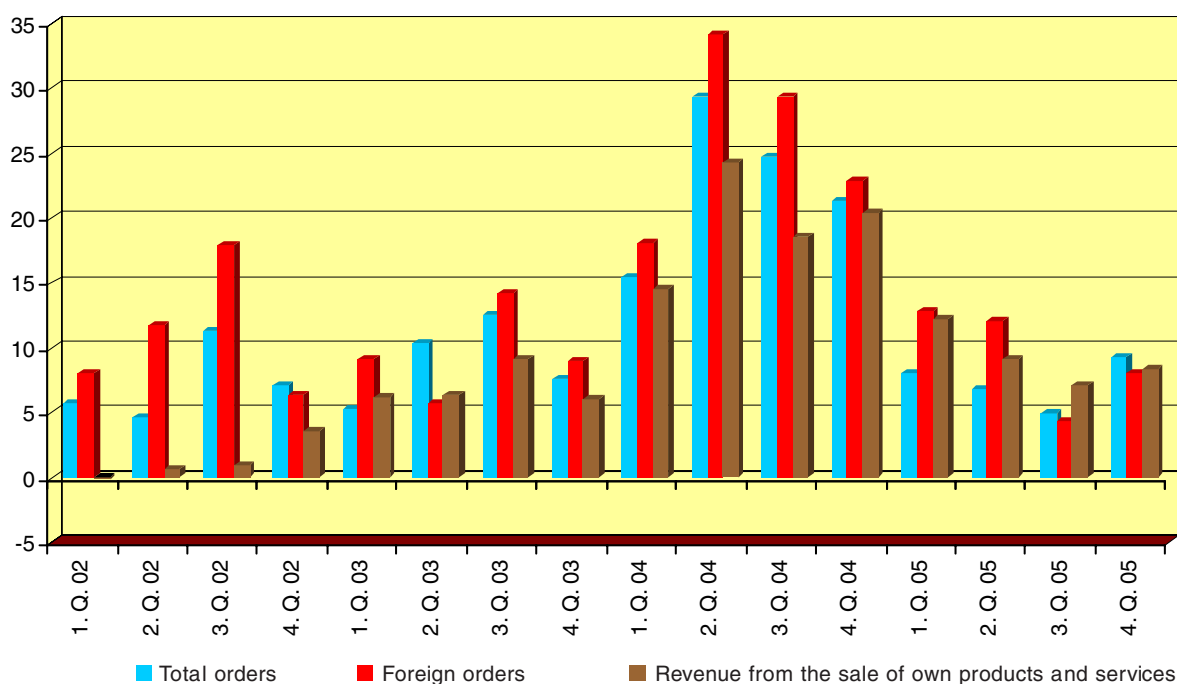
Source: CZSO

The lower economic activity in EU countries resulted in **the growth slowdown in the total number of newly concluded orders** (in current prices) in selected segments in 2005. The growth was 7.3% and that meant the decrease by 13.8 points. It included **foreign orders** decreasing down to 9.3% (by 13.7 points). The foreign orders participated in the total number with 64.6%. The slower growth was experienced also in revenues of these selected sub sections (in current prices). They increased by 8.9% (the decrease by 10.5 points). High growth in the number of newly concluded orders was reported by the manufacture and repairs of machinery and equipment (by 18% and the share of 11.8% in the total number), the manufacture of healthcare, precise and optical equipment (by 17.2% and the share of 2%), and the manufacture of metal constructions and metal working products (by 15.7% and the share of 7.9%). Orders within the manufacture of motor vehicles generally developed favourably and their number grew by 14.2% (the segment with the highest share of 26.9%).

The growth in the number of newly concluded orders by industrial businesses slowed down

Foreign orders experienced high growth in the manufacture of radio and television sets and communication equipment (by 44.5%, it participated in the total number of foreign orders with 7.9%), the manufacture of transport equipment (by 32% and the share of 2%), and in the manufacture and repairs of machinery and equipment (by 23.6% and the share of 12.2%). Foreign orders increased their number by 9.5% in the manufacture of motor vehicles. **Lower numbers of newly concluded orders** were noted in the manufacture of clothes, in the processing and colouring of fur, in the manufacture of textiles and textile products, and in the manufacture of basic metals and metallurgical products. Lower numbers of foreign orders were reported only by the manufacture of office equipment and computers. It might be said that demands for industrial goods kept still high and foreshadowed possible further growth (Graph No. II.1.4). The Graph shows that orders drove the revenue and also the extreme dynamics in 2004, which created the high base for 2005.

Graph No. II.1.4 Development in the number of new orders and total revenues of selected segments (the year-on-year change in %, in current prices)



Source: CZSO, MIT Graph

Note: Selected segments of NACE 17, 18, 21, 24, and 27 - 35

Sub sections of higher technological standard and with higher value added benefited from structural changes

The manufacturing industry continued in increasing its share slightly in total industrial revenue (in constant prices) by 0.3 point, **to 91.5%**, to the detriment of the two remaining sections - the raw material one (the decrease by 0.2 point, down to 2.1%) and the energy one (the decrease by 0.1 point, down to 6.4%).

Structural changes within the manufacturing industry **took place for the benefit of sub sections with higher value added and of higher technological standard** (in the result of the inflow of foreign capital). Their shares in total revenues increased in the three ones out of fourteen sub sections. The highest growth took place in the manufacture of transport equipment (by 2.3 points, up to 19.3%), mild growth took place in the manufacture and repairs of machinery and equipment (by 0.4 point, to 7.5%) and in the manufacture of rubber and plastic products (by 0.2 point, to 6.3%). Lower shares were reported by eight sub sections: The manufacture of food and beverages (by 0.9 point, to 8.9%) and the manufacture of basic metals, metallurgical and metal working products (by 0.8 point, down to 11.3%). The further three sub sections stagnated at the level of the previous year (Table No. II.1.3).

Table No. II.1.3 Structure of the revenue from the sale of own products and services
(organisations with 20 or more employees, shares in %, constant prices)

	2002	2003	2004	2005	Differen. 05-04
Total industry	100.0	100.0	100.0	100.0	
Mining and quarrying	2.8	2.7	2.4	2.1	-0.2
thereof:					
Extraction of energy raw materials	2.3	2.2	1.9	1.7	-0.2
Extraction of other minerals	0.5	0.5	0.4	0.4	0.0
Manufacture and distribution of power, gas, and water	7.6	7.6	6.5	6.4	-0.1
Manufacturing industry	89.6	89.7	91.2	91.5	0.3
thereof:					
Man. of food, beverages, and tobacco prod.	11.4	10.8	9.8	8.9	-0.9
Man.e of textiles, textile prod., and clothes	3.3	3.0	2.6	2.3	-0.3
Man. of leather and leather products					
products, with the exception of furniture	0.2	0.2	0.2	0.2	0.0
Processing of wood and the man. wooden	1.8	1.7	1.8	1.7	-0.1
Man. of pulp, paper, and paper products	4.3	4.1	4.0	3.9	-0.1
Man. of coke and refining of crude oil	3.2	3.1	2.5	2.3	-0.2
Man. of chemicals, preparations, and fibres	5.6	5.4	5.5	5.4	-0.1
Man. of rubber and plastic products	5.4	5.7	6.1	6.3	0.2
Man. of other non metallic mineral products	5.0	4.9	4.8	4.6	-0.2
Man. of basic metals and metal working prod.	11.8	12.2	12.1	11.3	-0.8
Man. and repairs of machinery and equipment not classified elsewhere	6.4	6.6	7.1	7.5	0.4
Man. of electrical and optical equipment	12.3	12.7	14.8	14.8	0.0
Man. of transport equipment	15.8	16.3	16.9	19.3	2.3
Man. industry not classified elsewhere	3.1	2.9	2.9	2.9	0.0

Source: CZSO

Note: Possible differences result from the rounding up

Employment in industry stagnated

The favourite economic development, the introduction of new manufacturing capacities in the newly prepared industrial zones into operations and the extension of manufacture in the existing industrial businesses, together with the dynamic growth in the number of new orders, especially the foreign ones, reflected in **growing employment within the manufacturing industry** by 0.7%, while, in contrast, it significantly lowered by 10.6% in the energy section and by 4.2% in

the raw material section. **Employment** in industry (according to the business statistics, organisations with 20 or more employees) **stagnated** (the mild decrease by 0.1%). Significant increases in employment were reported by our most important sub section - the manufacture of transport equipment, by 7% and the manufacture of rubber and plastic products by 7.3% (the important subcontractors of the automotive and electrical engineering industries). This indicator slightly increased also in other seven sub sections. In contrast, employment lowered in five sub sections. The biggest decreases took place in the manufacture of textiles, textile products and clothes (by 8.4%) and in the manufacture of leather and leather products (by 6.5%), where nominal wages were by one third lower than the industrial average (Table No. II.1.4).

The faster growth in revenues, together with the employment stagnation reflected in the high **growth in labour productivity** by 8.2% (by 10.2% in 2004). In individual industrial sections, this indicator increased most in the energy section by 19.7% (mostly because of the lower employment). The manufacturing industry reported the increase by 7.7%. Within its framework, increases took place in the manufacture of transport equipment (by 14.4%), the manufacture and repairs of machinery and equipment (14.1%), and in the manufacturing industry not classified elsewhere (by more than 10%). In contrast, lowering was reported by the three following sub sections: The manufacture of basic metals, metallurgical and metal working products (by 4.1%), the manufacture of coke and refining of oil (by 1.8% - the effect of the changed mode of the crude oil processing in the joint stock company Česká rafinérská), and in the manufacture of food and beverages (by 0.2% because of lower revenues).

Labour productivity grew faster than real wages

Growth in the labour productivity got ahead of the increases in real wages recalculated with the index of industrial producer prices in the industry by 6.6 points in total. The gap occurred in all sections and sub sections, with the exception of the manufacture of food and beverages, where the real wages grew by 4.6 points faster than the labour productivity (Table No. II.1.4).

Efforts by enterprises to retain their competitiveness reflected in **slower growth** in average **nominal wages**, which increased year-on-year in industry by 4.6% (by 7% in 2004). That, expressed as the increment of the average monthly wage, is CZK 798 (the year-on-year decrease of the increment by CZK 344).

Nominal wages grew by 4.6%, while the real ones by 2.6%

Among individual sub sections, the biggest increment was achieved in the manufacture of chemicals, preparations, and medicine (by 6.3%, the increment of CZK 1 271) and in the manufacture of coke and refining of oil (by 5.4%, the increment, thanks to the highest level of nominal wages, was CZK 1 347). In contrast, the lowest increment occurred in the manufacture of rubber and plastic products and in the manufacture of metals and metal working products - identically by 2.9% (the increment of CZK 496, CZK 517 respectively).

Real wages (recalculated by the consumer price index) increased in the industrial total by 2.6%. It was by 3.9% in the raw materials section, by 2.6% in the manufacturing industry, and by 4.2% in the energy section. Within the manufacturing industry, the biggest growth in real wages took place in the manufacture of chemicals, preparations and medicine (by 4.3%) and in the manufacture and repairs of machinery and equipment (by 3.5%). Real wages did not decrease in any sub section.

The high growth in the labour productivity, ahead of the slower increases in nominal wages and industrial producer prices, reflected in **decreasing unit labour costs**. Among fourteen sub sections within the manufacturing industry, nominal unit labour costs increased in five sub sections. The most significant increase took place in the manufacture of coke and refining of oil (by 7.3%, thanks to the lower labour productivity). Real unit labour costs increased only in one sub section. It

High growth in labour productivity reflected in unit labour costs

Table No. II.1.4 Selected indicators of industrial organisations with 20 or more employees (the year-on-year change in %)

Indicator	Index 2005/2004									Reality
	Industrial production (IPP)	Revenue from the sale of own prod. and serv. (const. pr.)	Revenue from direct exports (const. pr.)	Registered number of employees	Labour productivity based on revenues	Average nominal wage	Wage based on producers price index	Unit labour costs		Average wage in CZK
								Nominal	Real	
Mining and quarrying	0.4	-3.1	23.1	-4.2	1.2	5.9	-6.6	4.6	-7.7	22479
thereof:										
Extraction of energy raw materials	-0.4	-5.4	17.6	-4.3	-1.1	6.4	-9.3	7.6	-8.3	22807
Extraction of other minerals	2.4	6.8	33.8	-3.2	10.4	2.6	1.3	-7.1	-8.3	20206
Man.and distrib. of power, gas, and water	-1.2	7.0	-4.2	-10.6	19.7	6.2	-0.9	-11.3	-17.2	23974
Manufacturing industry	6.0	8.4	10.2	0.7	7.7	4.6	2.5	-2.9	-4.8	17798
thereof:										
Man. of food, beverages, and tobacco prod.	1.7	-2.5	15.8	-2.1	-0.3	3.2	4.3	3.5	4.7	16242
Man. of textiles, textile products, and clothes	-3.6	-3.1	0.0	-8.4	5.7	4.0	4.8	-1.6	-0.8	12081
Man. of leather and leather products	-4.6	3.6	-10.0	-6.5	10.9	5.2	3.7	-5.1	-6.4	11496
Processing of wood and the man. wooden products, with the exc. of furniture	0.6	6.5	15.3	2.0	4.4	3.6	2.0	-0.8	-2.3	14712
Man. of pulp, paper, and paper products	7.0	6.2	12.2	0.8	5.3	4.9	5.0	-0.4	-0.3	20239
Man. of coke and refining of crude oil	12.6	-1.3	-3.0	0.5	-1.8	5.4	-9.5	7.3	-7.8	26148
Man.f chemicals, preparations, and fibres	7.0	5.7	14.5	0.7	5.0	6.3	3.0	1.2	-1.9	21441
Man. of rubber and plastic products	11.5	12.6	11.4	7.3	5.0	2.9	2.2	-2.0	-2.7	17477
Man. of other non metallic mineral products	-1.5	3.1	5.9	-0.1	3.2	3.9	3.2	0.7	0.0	18672
Man. of basic metals and metal working prod.	-2.1	0.9	8.6	1.3	-0.4	2.9	-3.7	3.3	-3.3	18390
Man.and repairs of machinery and equipment not classified elsewhere	13.3	14.1	17.9	0.7	13.4	5.5	2.6	-7.0	-9.5	18627
Man. of electrical and optical equipment	5.2	8.2	-2.7	0.6	7.6	1.3	5.2	-3.1	-2.2	17580
Man. of transport equipment	19.2	22.9	18.8	7.0	14.8	5.3	7.6	-8.3	-6.3	21143
Man. industry not classified elsewhere	9.2	8.2	20.6	-2.2	10.6	4.0	3.3	-6.0	-6.6	14444
Total industry	5.7	8.1	10.2	-0.1	8.2	4.6	1.6	-3.3	-6.1	18279

Source: CZSO, MIT calculations

Note: Labour productivity calculated as the revenues from sale of own products and services index to the average registered number of employees ratio, in constant prices

Graph No. II.1.5 Development in the labour productivity, employment, and wages in industry (organisations with 20 or more employees, the year-on-year change in %)



Source: CZSO, MIT Graph

Note: Labour productivity in constant prices, real wages recalculated by the industrial producer prices index

took place in the manufacture of food and beverages, while these costs stagnated in the manufacture of other non metallic mineral products.

Table No. II.1.5 Development in wages versus labour productivity (the year-on-year change in %)

	Row number	Year				2005				
		2001	2002	2003	2004	1st Q	2nd Q	3rd Q	4th Q	Year
Average nominal wage	1	6.3	6.0	5.7	7.2	3.8	5.1	5.0	4.4	4.6
Average nominal wage using IPP index	2	3.3	6.5	6.0	1.4	-2.9	1.0	3.7	4.4	1.6
Average real wage	3	5.5	6.4	9.5	10.5	5.7	8.2	9.2	9.6	8.2
Unit labour costs										
Nominal	1/3	0.8	-0.4	-3.5	-3.0	-1.8	-2.9	-3.8	-4.7	-3.3
Real	2/3	-2.1	0.1	-3.2	-8.2	-8.1	-6.7	-5.0	-4.7	-6.1

Source: MIT calculation based on CZSO data

Development in the **size structure** of industrial enterprises with 20 or more employees **was influenced by transfers of organisations** among individual size groups. For example, Barum Continental and AVX Lanškroun transferred from the group with 4 000 - 4 999 employees to the lower group with 3 000 - 3 999 employees, while they **increased the revenues** (in constant prices) in that group by 76% (with a small share in total revenue), the revenue from direct exports (in constant prices) increased by 89.3%, and employment by 41.1%. The mentioned transfer caused almost 50% lower revenue and revenues from direct exports, and the lower employment by a quarter in the group with 4 000 - 4 999 employees. The similar development could be assumed also in the group of organisations with 2 000 -2 999 employees, where the revenue (in constant prices) increased by 34.1%

Development in the size structure was influenced by transfers among individual groups

Table No. II.1.6 Review of basic indicators by size category in 2005

	Average number of firms	Revenue from the sale of own products and services			Revenue from direct exports, the y-o-y change in con. p.	Number of employees			Average monthly				
		bill. CZK curr. pr.	Share in %	Y-o-y change con. pr.		In thous. people	Share in %	Y-o-y change	Revenue per employee			Wage	
									In CZK con. pr.	Y-o-y change con. pr.	Level, aver.=100	In CZK	Y-o-y change
Total - enterprises with 20 or more employees	8331	2573.1	100.0	8.1	10.2	1129.0	100.0	-0.1	185640	8.2	100.0	18279	4.6
20 -49	4105	165.4	6.4	7.3	7.0	122.1	10.8	2.4	107985	5.9	58.2	5427	5.5
50 - 99	1893	187.1	7.3	4.8	4.9	133.4	11.8	0.4	113219	4.4	61.0	15841	2.9
100 - 249	1415	358.0	13.9	5.1	12.0	220.4	19.5	-0.4	129955	5.6	70.0	16928	5.2
250 - 499	528	403.0	15.7	6.7	11.5	184.0	16.3	-0.2	181240	6.9	97.6	17885	4.6
500 - 999	263	469.9	18.3	18.3	21.4	181.7	16.1	6.5	208643	11.0	112.4	18966	5.2
1000 - 1999	88	331.7	12.9	-11.5	-7.3	120.5	10.7	-14.5	222774	3.6	120.0	20623	6.3
2000 - 2999	18	190.4	7.4	34.1	8.7	43.2	3.8	9.0	393775	23.0	212.1	18956	5.6
3000 - 3999	9	81.0	3.1	76.0	89.3	31.2	2.8	41.1	218511	24.7	117.7	20013	-3.0
4000 - 4999	5	37.8	1.5	-41.8	-54.0	21.1	1.9	-24.0	143725	-23.5	77.4	21160	6.8
5000 or more	7	348.8	13.6	11.9	25.7	71.3	6.3	-0.6	388111	12.6	209.1	25097	6.9

Source: CZSO

Table No. II.1.7 Review of basic indicators by institutional sector in 2005

Ukazatel	Average number of firms	Revenue from the sale of own products and services			Revenue from direct exports, the y-o-y change in con. p.	Number of employees			Average monthly				
		bill. CZK curr. pr.	Share in %	Y-o-y change con. pr.		In thous. people	Share in %	Y-o-y change	Revenue per employee			Wage	
									in CZK con. pr.	Y-o-y change con. pr.	Level averr. = 100	in CZK	Y-o-y change
Total enterpr. with 20 or more empl. thereof:	8331	2573.1	100.0	8.1	10.2	1129.0	100.0	-0.1	185640	8.2	100.0	18279	4.6
11001 - Public	95	141.2	5.5	-1.6	-7.2	37.2	3.3	-9.0	277552	8.0	149.5	23692	6.7
non government sector	8236	2431.8	94.5	8.6	10.6	1091.7	96.7	0.2	182520	5.9	98.3	18543	3.8
v tom:													
11002 - Private national	5633	999.8	38.9	0.6	8.0	611.6	54.2	-4.2	125635	4.9	67.7	16596	3.9
11003 - Private under foreign contr.	1938	1410.5	54.8	14.9	11.6	457.8	40.5	7.4	263640	6.9	142.0	20343	4.0
14000 - Entrepreneurs ^{*)}	665	21.5	0.8	-12.8	-10.4	22.3	2.0	-11.6	77257	-1.3	41.6	13048	1.6

Source: CZSO

^{*)} Natural persons not registered within the Commercial Register employing 20 or more employees

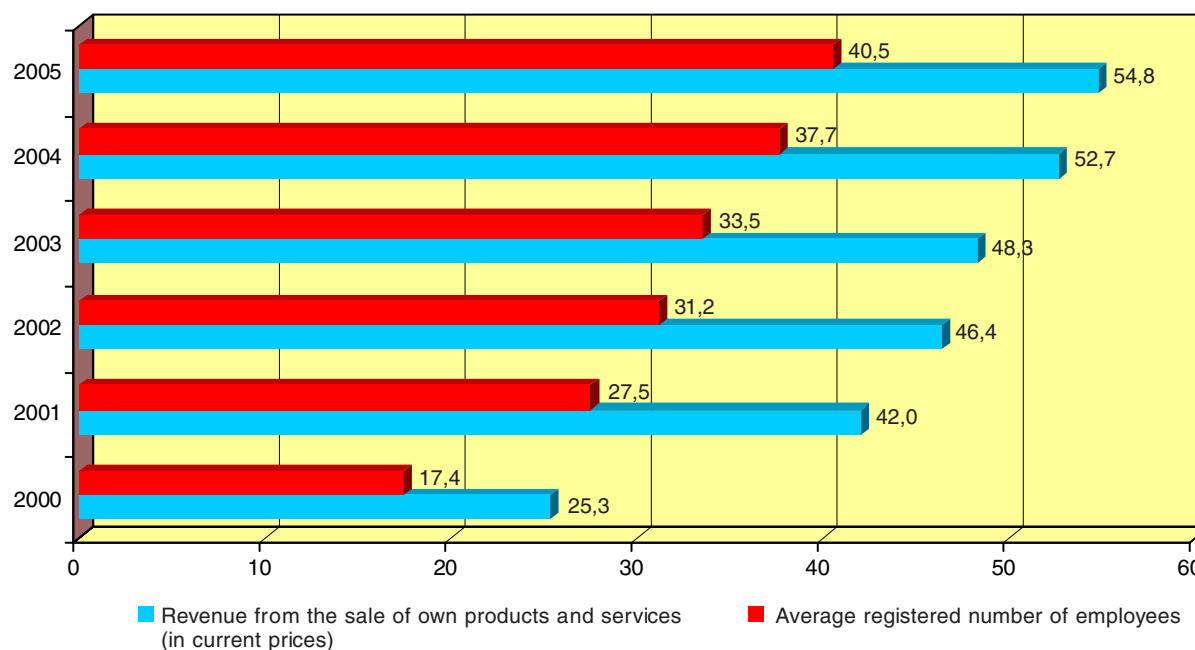
to the detriment of higher decline in revenues and employment in organisations with 1 000 - 1 999 employees. Favourite development took place in the group with 500 - 999 employees (and the share of almost one fifth of the total revenue), where revenues increased by 18.3% and the revenue from direct exports by 21.4%.

In the structure of **industrial businesses** by institutional sector, private companies under foreign control retained their high performance and their revenues grew year-on-year (in constant prices) by 14.9%. **Foreign capital favourably influenced the performance** of these companies and they had an easier access to foreign markets, thanks to their mother companies. That allowed for increases of the revenue from direct exports (in constant prices) by 11.6% (their share in the total revenue from the sale of own products and services of the sector reached 69.6%). Their share in total industrial revenue increased year-on-year by 2.1 points, to 54.8%, and in total employment by 2.8 points, to 40.5% (see Graph II.1.6) mostly to the detriment of the lower share of private national firms (by 1.8 points, down to 38.9% in the case of the revenue and by 2.3 points, down to 40.5% in the case of employment). Slight growth in revenue was reported by private national enterprises (by 0.6%). In contrast, the revenue lowered in other sectors (see Table No. II.1.7).

Development in enterprises under foreign control, especially the introduction of new manufacturing capacities into operations, reflected in the significant growth in employment by 7.4%. In contrast, employment lowered in other sectors, more significantly in the case of entrepreneurs (by 11.6%) and public companies (by 9%).

Enterprises under foreign control retained high dynamics in their revenues and their share increased

Graph No. II.1.6 Share of enterprises under foreign control in total revenue and employment (in %)



Source: CZSO, MIT Graph

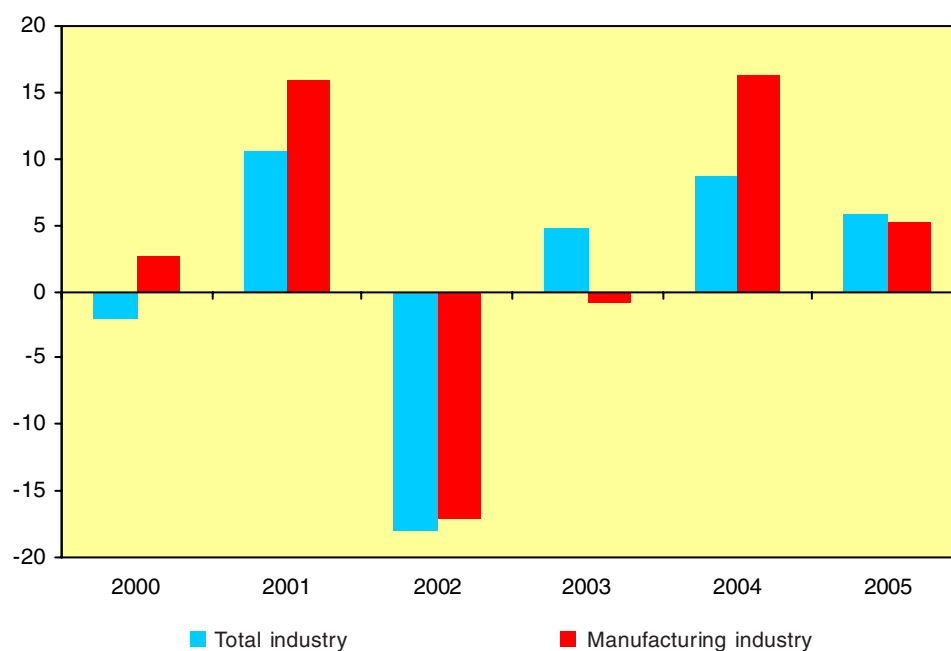
II.2. Investments in industry

Tangible investments in industry slowed down their year-on-year growth from 8.7% in 2004 **down to 5.9%**, of which the **buildings and structures ones** (the passive part of investments) **grew by 4.2%** (they decreased by 6.2% in 2004) **and the machinery and equipment** (the active part) **grew by 7.8%** (from 16.7%). The slowdown took place especially because of the high comparison base. When the Czech Republic joined EU, the investment activities by foreign investors increased, thanks to more favourite investment environment and the system of incentives.

Tangible investments in industry grew at a slower pace in 2005

There were changes taken place in the structure of industrial investments. In addition to constructing of operational plants, there were constructions of technological centres and strategic service centres started and that showed fast in the production characteristics of industry and in macroeconomic indicators. Faster dynamics of means put into the active part of investments proved the growing potential of industry because the investments into machinery and equipment make an important factor for further development and they react more sensitively to the economic cycle stage the economy found itself in.

Graph No. II.2.1 Tangible investments in industry in the period 2000 - 2005 (the year-on-year changes in %)



Source: CZSO, MIT Graph

The fastest growth in investments (by 11.7%) took place in the electricity, gas, and water supply (with the share of 17.1% in industrial investments), while investments in construction grew slightly by 2.5% and fast in machinery by 21.7% (see Table No. II.2.1). The high growth achieved in the energy industry resulted, for example, from the investment activities by ČEZ, a.s. and Severomoravská energetika, a.s.

The highest growth in investments took place in the energy sector...

Investments in the manufacturing industry grew by 5.2% (by 16.3% in 2004) and they participated with 79.1% (see Graph No. II.2.1) in the total industrial investments. Investments into construction increased by 4.4% and investments into machinery and equipment by 6.9%.

... and also in the manufacturing industry...

Table No. II.2.1 Gross industrial investments in 2005

NACE industries (organisations with 20 or more employees)		Tangible investments						Share in industrial investments (% , curr. pr.)			Intangible investments	
		in million CZK (curr. pr.)			Y-o-y chang. (% , con. pr.)							
		Total	Struct.	Machin. and equip.	Total	Struct.	Machin. and equip.	Total	Struct.	Machin. and equip.	mill. CZK (curr. pr.)	y-o-y. ch. (% , (con.p.)
Total industry		181 427	57 165	121 442	5.9	4.2	7.8	100.0	100.0	100.0	17543	93.7
C Mining and quarrying		6 897	3 097	3 565	-1.1	11.6	-6.5	3.8	5.4	2.9	151	-4.2
E Man. and distribut. of power, gas, and water		30 966	17 989	12 590	11.7	2.5	21.7	17.1	31.5	10.4	3485	78.3
D Manufacturing industry		143 564	36 079	105 287	5.2	4.4	6.9	79.1	63.1	86.7	13908	100.2
thereof:												
DA Man. of food, beverages, and tobacco prod.		13 303	3 574	9 509	-20.5	-37.7	-14.0	7.3	6.3	7.8	573	-22.4
DB Man. of textiles, textile products, and clothes		2 907	838	2 012	-14.6	38.8	-19.8	1.6	1.5	1.7	61	-39.1
DC Man. of leather and leather products		290	169	113	46.2	506.3	-10.4	0.2	0.3	0.1	6	106.9
DD Processing of wood and the man. of wooden products, with the exception of furniture		3 371	1 234	2 045	44.8	87.1	42.1	1.9	2.2	1.7	18	-61.9
DE Man. of pulp, paper, and paper products		5 875	1 031	4 753	2.7	-11.7	5.0	3.2	1.8	3.9	282	-7.7
DF Man. of coke and refining of crude oil		1 087	276	768	-24.3	28.1	-31.9	0.6	0.4	0.5	392	1583.8
DG Man. of chemicals, preparations, and fibres		8 407	2 924	5 407	0.0	0.2	1.6	4.6	5.1	4.5	2960	433.0
DH Man. of rubber and plastic products		8 850	2 428	6 258	-18.6	13.8	-23.7	4.9	4.2	5.2	242	-63.5
DI Man. of other non metallic mineral products		9 624	1 811	7 626	16.3	14.0	18.8	5.3	3.2	6.3	206	-6.3
DJ Man. of basic metals and metal working prod.		16 807	4 396	11 973	13.3	45.6	10.6	9.3	7.7	9.9	6360	1846.3
DK Man. and repairs of machinery and equip. not classified elsewhere		15 491	4 840	10 445	53.1	77.8	49.6	8.5	8.5	8.6	489	-26.1
DL Man. of electrical and optical equipment		14 736	4 084	10 461	-0.8	28.0	-5.0	8.1	7.1	8.6	589	-43.2
DM Man. of transport equipment		39 258	7 209	31 755	9.7	-18.6	17.1	21.6	12.6	26.1	1432	-32.7
DN Man. industry not classified elsewhere		3 558	1 265	2 162	2.3	-25.7	18.4	2.0	2.2	1.8	298	121.8

Source: CZSO - quarter year statements P3-04, MIT calculations

Within the manufacturing industry, the highest investment share (21.6%) belonged to the manufacture of transport equipment, thanks to the year-on-year growth by 9.7%.

Investments lowered by 1.1% in the mining and quarrying, which participated in the total investment volume in industry with only 3.8%.

The high growth in intangible investments within the manufacturing industry (by 100.2%) and in the manufacture and distribution of power, gas and water (by 78.3%) resulted from the introduction of permits related to glasshouse gas emissions in 2005. Thanks to the production characteristics, this phenomenon occurred, beside energy companies, also in firms active in the chemical industry (Chemopetrol, a.s. and Kaučuk, a.s.) and in the manufacture of metals and metallic products (Třinecké železářny, a.s. and ISPAT Nová huť, a.s. Ostrava).

... while investments lowered in the mining and quarrying

Intangible investments jumped up

II.3. Financial situation in industrial enterprises

Results of most financial industrial indicators **improved year-on-year in connection with growing production and exports**. However, their year-on-year growth significantly slowed down in 2005, thanks to the outstanding improvement of financial indicators in 2004, which created the high comparison base.

Financial indicator results related to the growth in production

The book value added (including the estimate for small subjects up to 19 employees) **slowed down its year-on-year growth** from 14.2% to 5%, **outputs**, including the trade margin, from 14.4% to 8.1%, and **the intermediate consumption** from 14.5% to 9.2%, when **exceptionally good results were achieved in the 4th quarter**. Outputs grew faster than the intermediate consumption only in that last quarter and this reflected, in the positive way, in the growing book value added and gross profits. This substantially improved the annual results. It is interesting as the experience from the previous years suggested that results would be the worst in the 4th quarter.

Results were generally influenced in a positive way by the year-on-year growth in the book value added and the gross profits in the mining and quarrying and in the energy industry, where the producer prices grew also the fastest. These sections had basically monopoly positions in the domestic market and they were almost independent from the foreign trade. The results of the manufacturing industry, which was decisive in industry generally, were influenced, in the negative way, by growing competition pressure and worse foreign trade terms.

The influence by larger industrial organisations (with 100 or more employees) on summary results of industry **remained relatively stable**. These organisations participated in industrial outputs and in the book value added with about 79% and with 67% in employment.

The year-on-year development in selected financial indicators (in organisations with 100 or more employees) was as follows:

1. Book value added

The manufacturing industry had the biggest share (2.6 percentage points) in the year-on-year growth in the book value added (in current prices) by 5.4% (by 14.5% in 2004). The second place was taken by the energy industry with 2.3 percentage

The manufacturing industry and the energy industry

contributed to the growth in the book value added

Growth in the book value added in the manufacturing industry, thanks to the manufacture of motor vehicles

points and the third place belonged to the mining and quarrying with 0.5 percentage point. The Table No. II.3.1 shows that the growth in the mining and quarrying, and especially in the energy industry was above average. In the energy industry, growing prices (of energy materials, power, gas, and heat) significantly contributed to higher outputs. The intermediate consumption grew much slower in these two sections, especially in the energy industry.

The book value added in the manufacturing industry increased by 3.3%, while the growth in intermediate consumption (11.7%) got ahead of outputs (9.6%), thanks to worse trading terms (from 102.1 to 98.3). The manufacturing industry was characterised with the high dependency of product exports, but at the same time, on imports, materials and components. However, industrial producer prices increased year-on-year by 3% (they had been decreasing since 3rd quarter of 2005) and export prices lowered year-on-year by 1.4%. The price effects had different impacts on individual branches within the manufacturing industry, depending on the sale structure (domestic deliveries, or deliveries for exports). **Intermediate consumption** was influenced by volumes and prices of bought materials, components, energy, and services (i.e. producer prices and import prices), depending on the import, material, and energy intensity and the scope of purchased services.

The growth in the book value added within the manufacturing industry was contributed to especially by the industries with high weight within the structure (the following five industries participated in the book value added in the manufacturing industry with almost one half), especially:

- *The manufacture of motor vehicles (the growth by 10.4%), thanks to the record revenue in ŠKODA AUTO, a.s. and the declining negative book value added (by CZK 1.6 billion) in companies, which increased the utilisation of their capacities and extended manufacturing in some of their plants,*
- *The manufacture of food and beverages (the growth by 9.6%),*
- *The manufacture of machinery and equipment (the growth by 5.4%),*
- *The manufacture of metal constructions and metal working products (the growth by 16.8%). This industry reported relatively important growth in producer prices (by 6.9% year-on-year),*
- *The manufacture of rubber and plastic products (the growth by 10.3%) connected especially with new production and extended capacities and the high growth in the joint stock company Barum Continental).*

Growth in the book value added was noted also in other 7 industries, but their weight was lower in the structure.

The book value added got worse year-on-year in ten industries. High decreases took place in the manufacture of computers and in the manufacture of radio and television sets and the communication equipment (23.6% - the volume of the negative value added increased by CZK 1.3 billion). The last mentioned industry has been going through important technological changes caused by declining demands for classical TV sets, television screens, and mobile telephone sets.

In the volume important industry - the manufacture of basic metals and metallurgical products, the book value added decreased by 8%. This was, in fact, a significant decrease in this indicator in a single metallurgical enterprise because of its production limitation organised for the price retention. The decrease in total costs was significantly lower than the decrease in outputs, while fixed costs remained high.

2. Labour productivity based on the book value added

The labour productivity based on the book value added (in current prices) **grew in industry** by 4.3%, to CZK 708.3 thousand per employee. It increased by 15.5%,

Employment improved, while the labour productivity

Table No. II.3.1 Value added and labour productivity based on value added in industry, in current prices (organisations with 100 or more employees)

	Outputs, including trade margin		Intermediate consumption		Book value added		Labour prod. bas. on value add.	
		Y-o-y change in %	in bill. CZK	Y-o-y change in %%	in bill. CZK	Y-o-y change in %	in thous. CZK per employee	Y-o-y change in %
Industry	2520,9	9,5	1894,9	10,9	626,0	5,4	708,3	4,3
thereof:								
Mining and quarrying n	68,9	8,7	32,6	8,4	36,3	8,9	874,9	14,3
Manufacturing industry	2130,2	9,6	1644,1	11,7	486,1	3,3	613,9	1,3
Electricity, gas and water supply	321,9	8,6	218,3	5,6	103,6	15,3	2050,8	23,2

Source: CZSO

significantly slowed down its growth

Labour productivity from the technology level kind's point of view

while employment increased by 1.1% in 2004. It grew well above average in the energy industry⁸ and in the mining and quarrying, where employment was permanently decreasing. In the manufacturing industry, employment grew by 1.9% in 2005, while the labour productivity reached CZK 613.9 thousand per employee, i.e. by 1.3%. The highest level was achieved in the manufacture of coke, refining of oil (CZK 1 903.5 thousand per employee, i.e. the decrease by 2.4%), the manufacture of chemicals, preparations and medicine (CZK 1 032.0 thousand per employee, i.e. the growth by 0.3%), and in the manufacture of motor vehicles (CZK 838.2 thousand per employee, i.e. the growth by 1%).

In the structure of industries within the manufacturing industry, according to 4 level kinds of technologies,⁹ used by the OECD methodology: High technology, Medium - high technology, Medium - low technology, Low technology (see Table No. II.3.2), the highest level of labour productivity based on the book value added was achieved in the 3rd group (Medium - low technology), where the refining manufacture, the rubber industry, and metallurgy belong to. The share of this group in the book value added oscillated at about 30%.

The second highest level in the labour productivity belonged to the 2nd group (Medium - high technology) with the prevailing influence of the automotive industry, mechanical engineering, and the chemical industry. The share of this group reached 39% and dynamics there were growing.

It was paradoxical that the 4th group Low technology (the food industry and other light industry) achieved a higher level of the labour productivity in 2005 than the 1st group of High technology (the pharmaceutical industry, computers, and the radio, television, and communication equipment). The share of industries within the 4th group was permanently declining (down to 24% in 2005), while the share of the 1st group had grown and culminated in 2002, but started to lower then. (This development was significantly influenced by the decreasing book value added, in some industries even with negative values of this indicator. They were mostly related to foreign assembly plants, the results of which were influenced by the redistribution of finance within the multinational concerns.)

Table No. II.3.2 Labour productivity by the technology level within the manufacturing industry (organisation with 100 or more employees)

Category	Share in the book value added						
	1999	2000	2001	2002	2003	2004	2005
1) High technology	5.3	6.3	5.9	8.4	7.0	7.7	6.7
2) Medium - high technology	35.2	35.4	37.8	36.3	37.9	38.0	38.8
3) Medium - low technology	29.0	29.7	28.7	27.8	29.4	30.7	30.5
4) Low technology	30.6	28.6	27.6	27.5	25.7	23.6	23.9
Total manufacturing industry	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Category	Labour prod. based on the value add. per empl., thous. CZK						
	1999	2000	2001	2002	2003	2004	2005
1) High technology	356.3	432.1	399.3	561.3	540.9	608.9	533.7
2) Medium - high technology	400.9	464.8	507.8	482.7	547.3	614.9	626.3
3) Medium - low technology	398.5	491.2	484.0	475.1	573.0	677.4	667.6
4) Low technology	350.6	411.1	419.2	430.4	465.4	355.6	561.7
Total manufacturing industry	384.5	454.3	466.5	470.4	529.7	605.8	613.9

Source: CZSO, MIT calculations

⁸ The effect of restructuring of energy distribution companies connected with transfers of employees to new firms active within non industrial industries.

⁹ 1) High technology = NACE 244, 30, 32, 33, 353
 2) Medium - high technology = NACE 24 - 244, 29, 31, 34, 352, 354
 3) Medium - low technology = NACE 23, 25, 26, 27, 28, 351
 4) Low technology = NACE 15, 16, 17, 18, 19, 20, 21, 22, 36, 37

3. Economic results (revenue, costs)

The above-mentioned influences impacting the development in book value added showed, similarly, also in other financial indicators. **Gross profit** (the economic result before tax) **increased** by 3.5%, to CZK 186.0 billion, while the achieved growth in the mining and quarrying was 41.8% and in the energy industry 12.3%. **It decreased in the manufacturing industry** by 2.7% (see Table No. II.3.3). Its **year-on-year change**, which made up CZK 6.3 billion in industry, **was positively influenced by the production factor** (the year-on-year growth in the net surplus¹⁰ from operations) of the volume of CZK 12.7 billion, while **the non production factor acted in a negative way**, when the balance of other revenues and other costs worsened by CZK 6.4 billion.

Gross profits increased, thanks to the mining and quarrying and the energy industry

Table No. II.3.3 Economic result before tax in industry (organisations with 100 or more employees)

	Economic result before tax			Included year-on-year change			
				In profits		In losses	
	bill. CZK	Year-on-year change		bill. CZK	in %	bill. CZK	in %
		in %	bill. CZK				
Industry	186.0	3.5	6.3	16.1	8.2	-9.9	55.4
thereof:							
Mining and quarrying	16.1	41.8	4.8	5.0	42.5	-0.2	64.6
Manufacturing industry	124.9	-2.7	-3.4	5.6	3.8	-9.0	52.4
Electricity, gas and water supply	45.0	12.3	4.9	5.5	13.8	-0.6	255.2

Source: MIT calculations based on CZSO data

The factors acted in different ways in individual sections. Both factors had positive impacts on growth in the gross profits in the mining and quarrying - the production factor within the scope of 61.3% (CZK 2.9 billion) and the non production one within the volume of CZK 1.8 billion. Both factors had negative, almost identical impacts on the manufacturing industry, where they had the share of 47.2% (CZK 1.6 billion) in the decrease in profits (CZK 1.8 billion in the case of the non production factor). The production factor prevailed in the energy industry with the volume of CZK 11.4 billion, but it was lowered by CZK 6.7 billion by the worse non production factor.

The year-on-year **changes in gross profits featured big fluctuations** (in connection with the development in production, prices, and in the funding of investment projects, by the utilisation of transfer prices, etc.) and **the development, from the point of view of 22 branches within the manufacturing industry** (according to the 2-digit NACE classification), **was as follows:**

Fluctuating changes took place in the gross profits within the manufacturing industry branches

- *Gross profits increased in 9 branches. The biggest increases took place in the manufacture of healthcare, optical and time measuring instruments (81.6%) and in the manufacture of machinery and equipment (35.5%). The increase in the volume most important industry - the manufacture of motor vehicles, was only 0.6%,*
- *The creation of gross profits worsened year-on-year in 10 branches, e.g. in the manufacture of radio and television sets and the communication equipment and in the manufacture of other transport equipment (by about 83%). The decrease of almost 37% took place in the manufacture of coke and refining of oil (the effect of lower refining margins),*
- *Summary losses were reported by 3 branches: The manufacture of clothes (CZK 118 million compared with CZK 154 million in 2004), the manufacture of leather and*

¹⁰ Net surplus from operations = book value added - depreciation - personal costs

leather products (CZK 21 million compared with the loss of CZK 51 million in the compared period), and the manufacture of computers (CZK 3 million compared with the loss of 211 million in 2004).

The loss increased by a half

The volume of the loss by loss making organisations increased year-on-year by 55.4% (by CZK 9.9 billion absolutely) to CZK 27.6 billion and the number of loss making organisations increased by 16.3%, to 591 ones (24% of the number). The **high growth in the loss concentrated in the manufacturing industry**, mainly in: The manufacture of radio and television sets and the communication equipment (the increase by CZK 3.3 billion) and in the manufacture of motor vehicles (the increase by CZK 2.9 billion). The growth in the loss was basically influenced by 11 enterprises (with the losses higher than CZK 0.5 billion, which made up the final CZK 13.1 billion) - the year-on-year increase by 430.5%. They were mostly enterprises under foreign control. **Gross profits increased in profit making organisations** by 8.2%, to CZK 213.7 billion and their **number decreased** by 1.4%, down to 1 844 enterprises.

Revenues grew slower than costs, with the exception of the 4th quarter

Revenues increased year-on-year by 9% and their **growth stayed behind the growth in costs** by 0.4 percentage point. The revenues grew faster than the costs only in the 4th quarter (9.1% to 8.6%). In the revenue structure, **outputs grew more** (9.7%) with the share of 85% than other revenues (6.4%) and the revenues from the sale of goods (4.4%). The growth in revenues prevailed over costs during the entire year in the mining and quarrying and in the energy industry, while, in contrast, costs grew faster in the manufacturing industry.

Growth in the intermediate consumption influenced the growth in costs

Development in costs of industrial enterprises was influenced especially by the scope and development in the intermediate consumption, as the cost structure was in 2005 as follows:

- *Intermediate consumption (the share of 69%) that increased year-on-year by 10.9%,*
- *Personal costs (the share of 10.5%), the volume of which increased by 6.1%,*
- *Other costs (the share of 9.3%) with the year-on-year growth in their volume by 8.7%,*
- *Goods related costs (the share of 6.5%), which increased absolutely by 5.8%,*
- *Depreciation (the share of 4.7%), the volume of which increased year-on-year by 2.1%.*

4. Assets and liabilities

Both assets and liabilities made their year-on-year growth faster, especially in the energy industry

Total company assets and sources of their coverage (liabilities) grew faster by 7.8%, to CZK 2 378 billion. They increased significantly in the energy industry (by 15.3%, this probably related to the re-evaluation of assets and to the introduction of emission permits in 2005) and in the manufacturing industry (by 5.7%), while they decreased in the mining and quarrying (by 2.4%). In the liability structure, **the biggest growth occurred in equity** by 9.1% (including by 17.8% in the energy industry, by 7.3% in the manufacturing industry, while the decrease by 11.8% occurred in the mining and quarrying), when compared with **foreign resources** (6.2%, while they increased in the mining and quarrying by 20.2% and in the energy industry by 11%). According to Bank statistics, their credits in industry increased year-on-year by 12.6%, to CZK 216 billion. The over extension of companies (the negative equity) reached CZK 20.7 billion (CZK 19.4 billion in the comparable period).

5. Return on equity, inventories

Changes in gross profits and in the volume of equity reflected in **the return on equity**,¹¹ which decreased in industry by 0.8 percentage point, down to 14.6%,

¹¹ Return on equity = economic result of the monitored period before tax / equity at the end of the monitored period in %

while it significantly grew in the mining and quarrying (by 7.9 percentage points) up to 20.9%.

Inventories in industry slowed down their growth year-on-year from 11.1% (in the comparable period 2004/2003) to 3.5%, while they grew in the mining and quarrying by 24.9% (up to CZK 3.7 billion) and by 7.1% (up to CZK 254.7 billion) in the manufacturing industry, while they decreased by 55.4% (down to CZK 7 billion) in the energy industry. In their structure, only the inventories of own production grew (by 14.5%) to CZK 128.6 billion. The material stock decreased by 5.5%, down to CZK 117.7 billion, and the stock of goods decreased by 2.2%. The lower stock of materials was influenced by the energy industry, while it increased by 2.4% in the manufacturing industry.

Growth in inventories slowed down significantly

Turnover of stock (compared with total revenue¹²) **was faster** by 2.1 days, to 36.1 days.

6. Institutional sectors

From the point of view of **institutional sectors**,¹³ **the year-on-year growth in performance indicators significantly slowed down in enterprises under foreign control**. Their gross profits and the labour productivity based on book value added even decreased, but employment grew. It was the opposite way in private national enterprises, where employment lowered, but financial indicators developed better than in the case of foreign enterprises (see Table No. II.3.5).

Financial results significantly improved in the private national sector

The public sector improved its financial results year-on-year, when the growth in book value added, the labour productivity based on this indicator and gross profits increased above average. These very good results were influenced by several big enterprises (CEZ, a.s., Kaučuk, a.s., and Chemopetrol, a.s.). The return on equity increased year-on-year by 1.4 percentage point, to 10.9%.

Gross profits and book value added grew most in the public sector

Financial results of enterprises under foreign control, the productions of which were mostly export-oriented and which depended more on imports, were influenced more by the terms of foreign trade. Another influence, which had a negative impact on their financial results, was the higher utilisation of transfer prices in several industries (in several enterprises respectively) and losses of some new capacities (enterprises reporting the biggest volumes of loss were in this sector).

Gross profits and the labour productivity based on the book value added decreased in the sector under foreign control

It might be assumed that exports caused the redistribution of funds through other enterprises, which were placed, thanks to their prevailing industrial activities, either in services or in trade, and further through foreign companies, which were not registered in the Czech Republic under their identification numbers (IČO), but only as value added tax payers.

The mining and quarrying (coal mining companies) contributed to the year-on-year growth in the financial indicators of private national enterprises. This improved year-on-year the book value added and gross profits. The lowering in employment slowed down in this sector. In spite of the fact that gross profits grew, the return on equity almost did not change year-on-year (12.3% to 12.4% in the comparable period). Equity in this sector increased more (by 17.5% year-on-year), especially thanks to the high increases in enterprises active in the energy industry and in the mining and quarrying .

Results in the private national sector were influenced, in a positive way, by the mining and quarrying

¹² Total revenue = revenue from the sale of own product and services + revenue from the sale of goods

¹³ The classification, according to institutional sectors, is based on the fact that an enterprise was assigned within the same sector in all periods, according to the Register of Economic Subjects (RES) at the end of 2005. The sectors do not reflect the Unipetrol privatisation. Classification results by sectors differ from CZSO data.

Table No. II.3.5 Year-on-year changes in indicators by institutional sectors (organisations with 100 or more employees)

	Shares of sectors in industrial output (in %)		Year-on-year changes in %						Lab. pr. bas. on value add.	
			Number of units	Number of employees	Book value added	Outputs, incl. margins	Intermediate consumption	Economic res. bef. tax	in thousand CZK	Y-o-y change in %
Industry	100.0	100.0	2.4	1.1	5.4	9.5	10.9	3.5	708.3	4.3
thereof:										
11001 - Public	6.4	6.0	-8.6	-8.8	16.9	3.8	-4.4	20.6	1848.7	28.2
11002 - Private national	35.6	36.1	0.7	-1.3	7.3	11.2	12.5	16.9	528.9	8.7
11003 - Private under foreign control	58.0	57.8	5.6	4.6	2.1	9.1	11.3	-7.0	803.3	-2.4

Source: MIT calculations based on CZSO data

Note: The Table does not include the entrepreneurship sector (entrepreneurs - natural persons with 100 or more employees, who are not registered within the Commercial Register) because of its negligible share in results.

III. CONSTRUCTION

III.1. Production, employment and productivity

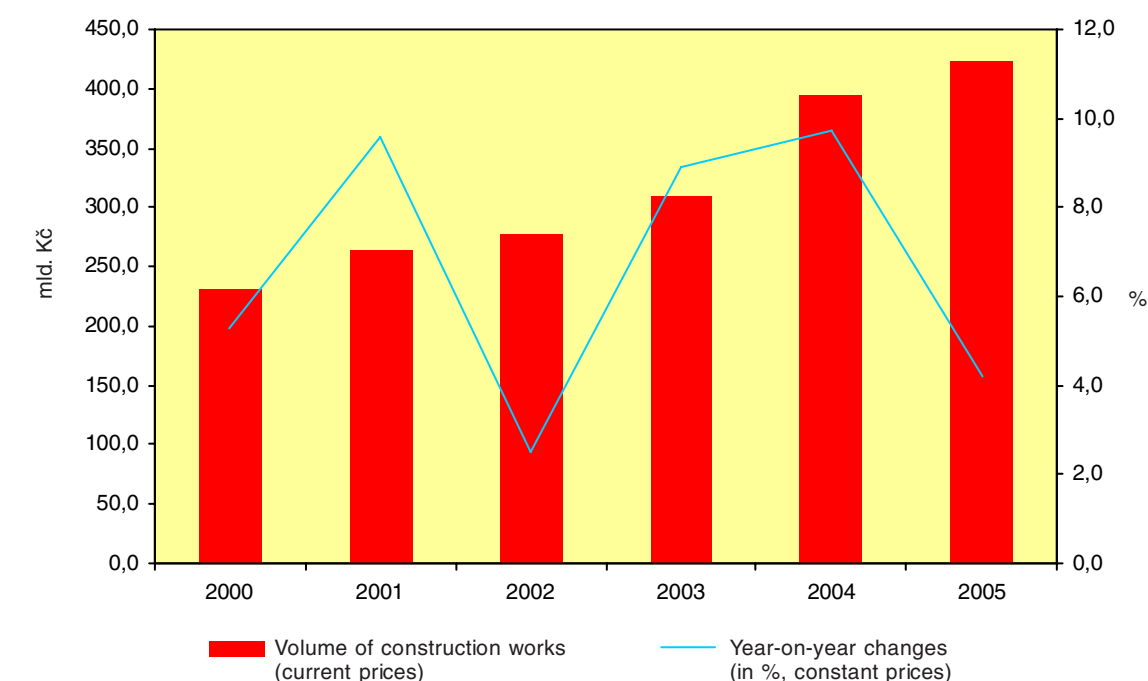
The construction industry continued growing in 2005. The growth prevailed there for the sixth year. **The growth dynamics reached 4.2%** and that was by 5.5 percentage points less, when compared with 2004. However, statistical results were influenced especially during the first half of 2005 by the high comparison base related to the increase of DPH (VAT) rate implemented with regard to construction works from 5% to 19% (as from 1 May 2004).

The long-term growth in construction continued...

The sources of the growth in construction were important investment projects in the area of engineering construction, especially the transport infrastructure (construction of freeways, railways, extensions of airport capacities, etc.), but also shopping and logistical centres related to the important inflow of foreign direct investments and the continuous growth in the housing constructions.

... mainly thanks to the development of the transport infrastructure

Graph No. III.1.1 Construction outputs in 2000 - 2005 (year-on-year changes in %)



Construction by small firms (up to 19 employees) significantly slowed down its pace of the year-on-year growth from 11.4% in 2004 down to 2.3%. These enterprises focussed mostly on repairs and maintenance of housing objects and worked in the role of subcontractors for larger construction companies.

Construction outputs in small companies significantly slowed down the pace of its growth

Table No. III.1.1 Structure of construction works in 2000 - 2005 (construction enterprises with 20 or more employees)

	Y-o-y changes (in %, constant prices)				2005		
	2001	2002	2003	2004	Y-o-y (%, con.p.)	Volume (mill. CZK, con. p.)	Share1 (in %, curr. p.)
Total construction works, according to contracts thereof:	9.1	2.6	9.0	8.9	5.1	290 672	100.0
- Domestic total	8.1	3.5	9.2	8.4	4.8	286 026	98.4
New constr., reconstr., and modernising	9.0	1.8	8.3	10.0	6.5	248 268	85.4
thereof: Building constructions	7.3	-2.6	6.9	51.6	2.2	145 034	49.9
Engineering constructions	12.4	10.3	10.7	32.8	13.3	103 233	35.5
Repairs and maintenance	1.2	14.1	14.7	-1.3	-5.8	33 999	11.7
thereof: Building constructions	-0.7	8.3	6.0	6.9	-2.0	18 903	6.5
Engineering constructions	4.3	22.5	25.3	6.1	-10.2	15 096	5.2
Other works	36.5	19.6	5.4	18.0	6.0	3 759	1.3
- Abroad	68.4	-35.3	-1.4	49.5	17.9	4 646	1.6

Source: CZSO

Constructions grew faster in larger enterprises...

Construction works increased year-on-year by 5.1% (by 8.9% in the same period in the previous year) **in larger enterprises (with 20 or more employees)**, which organised 68.8% of the total volume of construction works.

... especially in new constructions, reconstructions, and modernisation...

The decisive volume of construction works by these enterprises (85.4%) **was completed** in the country **in new constructions, reconstructions, and modernising, where the growth by 6.5% was reported** (see Table No. III.1.1). Engineering constructions increased by 13.3%, especially thanks to the development in the transport infrastructure. The continuous development in housing reflected in the mild growth of building constructions (by 2.2%).

... while construction works on repairs and maintenance decreased

Works on repairs and maintenance decreased by 5.8%, especially in engineering constructions (by 10.2%), but also in building constructions (by 2.0%). The declining dynamics in repairs and maintenance within building constructions could relate to the wave of extensive repairs after the floods, especially in housing. This was proved by their high dynamics in 2002 and 2003. Repairs and maintenance participated in the total volume of construction works completed in the country with 11.7%.

Exports of construction works grew very fast

Exports of construction works achieved the high growth (by 17.9%), but their share in the total volume of constructions was only 1.6%.

Table No. III.1.2 Wages, labour productivity and unit wage costs
(organisations with 20 or more employees, year-on-year changes in %)

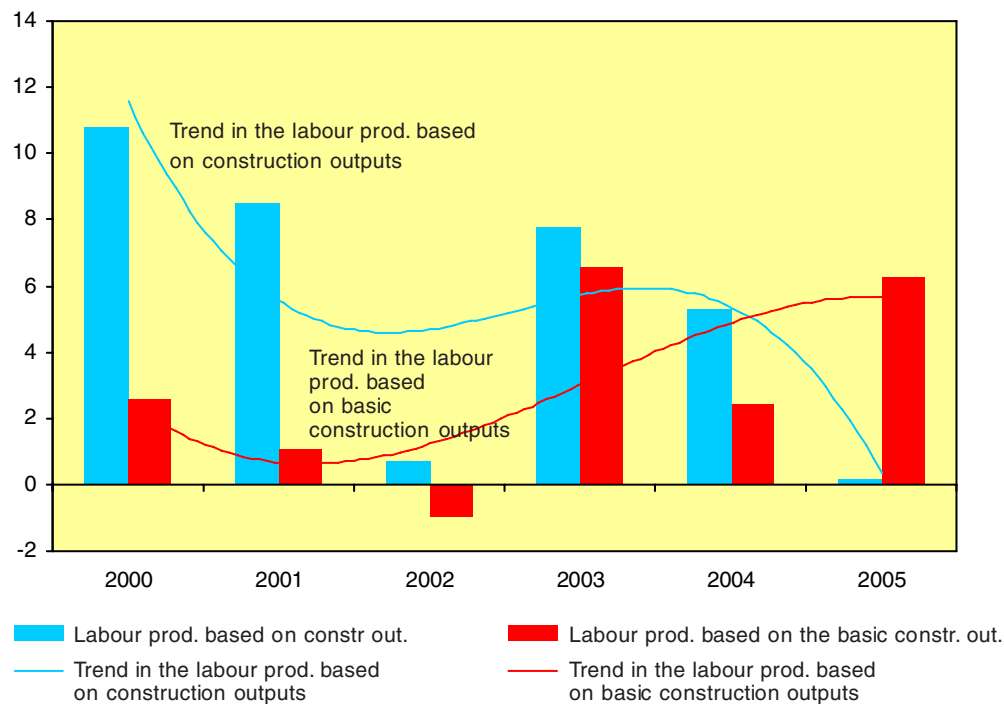
	Row	Year					
		2000	2001	2002	2003	2004	2005
Average nominal wage	1	4.9	7.0	6.4	6.1	6.2	3.8
Average real wage*	2	0.9	2.8	3.7	3.8	2.4	0.8
Labour productivity based on construction outputs, const. prices	3	10.8	8.5	0.7	7.8	5.3	0.2
Unit wage costs							
- Nominal	1/3	-5.3	-1.4	5.7	-1.6	0.9	3.6
- Real	2/3	-8.9	-5.3	3.0	-3.7	-2.8	0.6

* The average nominal wage recalculated with the index of construction work prices
Source: CZSO

Employment in construction enterprises with 20 or more employees grew year-on-year by 4.9%. **Slight increases in labour productivity** based on construction outputs, according to contracts achieved 0.2% (constant prices) and **the average nominal wages, increasing, at the same time, by 3.8%** (up to CZK 18 923) **caused the growth** in nominal unit wage costs by 3.6% and by 0.6% in the real ones (see Table No. III.1.2 and Graph No. III.1.2).

Wages grew ahead of the labour productivity based on construction outputs, according to contracts

Graph No. III.1.2 Comparison of the labour productivity based on construction outputs, according to contracts, and the labour productivity based on the basic construction outputs (organisations with 20 or more employees, year-on-year changes in %, constant prices)



Source: CZSO, MIT Graph

Performance of the construction industry is described more precisely by the indicator „Basic construction outputs“. As the indicator „Construction works, according to contracts“ includes also subcontracts by other firms, the calculation of the labour productivity used also the indicator „Basic construction outputs“, which extracts the influence by subcontracts (it relates only to works executed by own workers). The Basic construction outputs increased by 11.5% and the labour productivity, based on this base, grew by 6.3%. This meant it got ahead of the growth in the average nominal wages by 2.5 percentage points (see Graph No. III.1.2).

From the point of view of institutional sectors (see Table No. III.1.3), enterprises under foreign control achieved high year-on-year growth in construction outputs (11.3%) and the share of almost 18%, while their employment grew by 4.0%. The higher growth in employment (4.8%) was reported by private national enterprises, but their growth in construction outputs was lower (3.9%) and their share reached almost 80% of construction works. This situation reflected in the decrease in their labour productivity (according to contracts) by 0.9%. The enterprises under foreign control thus increased their lead in the labour productivity (according to contracts) by 7.0%. The level was thus by about 40% higher, when compared with private national enterprises. The highest growth in employment (by 12.6%) was achieved in enterprises of natural persons not registered within the Commercial Register. However, the growth in their construction works was small (2.7%) and the share of 1.7%). This reflected in the labour productivity slump by 8.8%.

Enterprises under foreign control were the most productive and efficient

Table No. III.1.3 Basic indicators of construction enterprises by institutional sector and by their size in 2005

Indicator	Number of enterpr.	Construction works, according to contracts			Average number of employees			Average nominal wage		Labour productivity	
		Total in mill. CZK (cur. p.)	Y-o-y changes (% , con. p.)	Share in %	Workers	Y-o-y changes (% , con. p.)	Share in %	CZK	Y-o-y changes (% , con. p.)	th. CZK (cur. p.)	Y-o-y changes (% , con. p.)
Total construction enterprises with 20 or more employees	2 498	290 672	5.1	100.0	161.7	4.9	100.0	18 923	3.8	1798	0.2
thereof, according to sectors:											
11001 - Public	8	3 584	0.6	1.2	3.4	-1.6	2.1	18 521	5.9	1062	2.3
11002 - Private national	2 156	230 276	3.9	79.3	134.2	4.8	83.0	18 304	3.7	1716	-0.9
11003 - Private under foreign con.	131	51 777	11.3	17.8	17.6	4.0	10.9	25 849	4.6	2944	7.0
14000 - Entrepreneurs ^{*)}	203	5 035	2.7	1.7	6.5	12.6	4.0	13 154	4.6	775	-8.8
thereof, acc. to the number of empl.:											
20 - 24	625	14 318	9.7	4.9	13.6	14.9	8.4	14 845	2.1	1053	-4.6
25 - 49	1 089	42 085	-1.8	14.5	36.8	7.3	22.8	15 664	1.7	1144	-8.5
50 - 74	353	26 295	-0.1	9.0	21.4	5.4	13.2	16 600	2.9	1231	-5.2
75 - 99	153	18 185	-5.0	6.3	13.2	3.6	8.2	17 517	2.2	1381	-8.3
100 - 199	176	30 032	-7.6	10.3	23.4	2.1	14.5	17 580	3.0	1283	-9.5
200 - 299	50	25 455	8.2	8.8	11.9	7.5	7.4	18 561	2.6	2136	0.7
300 - 399	19	13 078	6.3	4.5	6.4	0.7	3.9	20 041	4.3	2038	5.5
400 - 499	9	7 549	15.8	2.6	3.9	2.2	2.4	20 236	1.7	1941	13.3
500 - 999	16	30 611	11.7	10.5	11.7	3.1	7.2	23 892	6.4	2609	8.4
1000 or more	10	83 064	13.9	28.6	19.4	-0.4	12.0	29 692	11.2	4289	14.3

^{*)} Natural persons not registered within the Commercial Register, with 20 or more employees

Source: CZSO

Table No. III.1.4 Issued building permits in the period 2000 - 2005

	2000	Y-o-y changes (% , con.p.)	2001	Y-o-y changes (% , con.p.)	2002	Y-o-y changes (% , con.p.)	2003	Y-o-y changes (% , con.p.)	2004	Y-o-y changes (% , con.p.)	2005	Y-o-y changes (% , con.p.)
Issued building permits (number)	169 574	1.2	149 244	-12.0	140 822	-5.6	149 339	6.0	153 622	2.9	142 941	-7.0
Orientation value of constructions (mill. CZK)	229 955	-3.7	236 375	2.8	242 212	2.5	286 228	18.2	315 072	10.1	325 824	3.4
Average value per permit (i thous. CZK)	1 356	4.8	1 584	6.8	1 720	8.6	1 917	11.5	2 051	7.0	2 279	11.1

Source: CZSO

From the point of view of the size structure of enterprises, larger enterprises with more than 400 employees reported high growth in construction outputs and slight increases in employment (these indicators slightly declined in enterprises with more than 1 000 employees). This reflected in the high growth in the labour productivity based on contracts (by 14.3%). Companies with fewer than 200 employees reported decreases in construction works (with the exception of the group with 20 - 24 employees). Their mostly higher growth in employment reflected, in a negative way, in the decreasing labour productivity.

The number of issued building permits decreased by 7.0% year-on-year, down to 142 941 (thereof 52.1% for new constructions and 47.9% for changes in completed constructions). Their orientation value increased by 3.4%, up to CZK 325.8 billion. The year-on-year decline in growth, from 10.1%, was caused by the high comparison base of the previous year, when building permits related to highly financially intensive engineering constructions were issued and when the construction structure changed. The average value per permit increased by 11.1%, up to CZK 2 279 thousand. This meant the year-on-year increase by 4.1 percentage points.

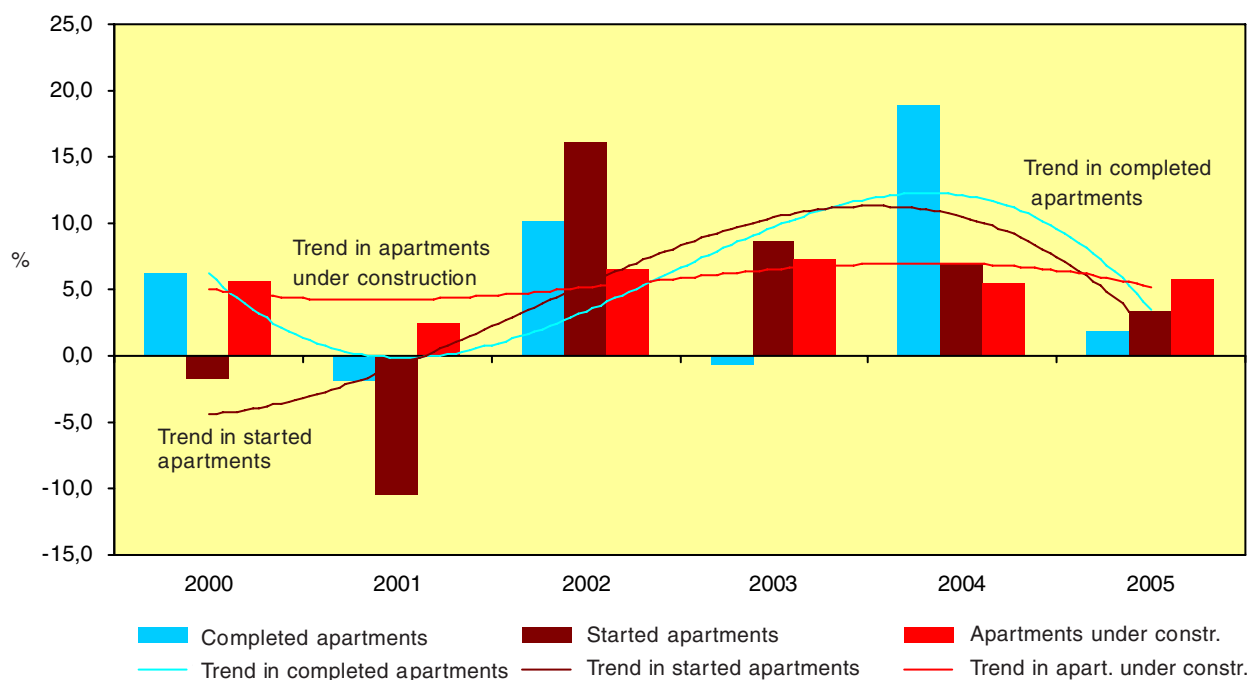
The number of issued building permits increased together with the orientation value of constructions and the average value per permit...

The number of new construction orders increased year-on-year by 8.9%, to 93 602 ones. Their value decreased by 10.1%, down to CZK 248.8 billion. The biggest volume of orders (55.9%, i.e. CZK 85.2 billion) took place in the area of engineering constructions, but also to the construction of non manufacturing non living buildings (20.5%, i.e. CZK 60.8 billion). The average value of a newly concluded construction order was in the country in the monitored period CZK 2.7 million.

... same as the number of new construction orders

III.2. Development in housing

Graph No.III.2.1 Housing constructions in 2000 - 2005 (year-on-year changes in %, constant prices)



Source: CZSO, MIT Graph

Housing constructions, thanks to favourite conditions in the market, grew

The fast development in housing was stimulated in the environment of dynamical economic growth by advantageous interest rates on mortgages, which initiated the strong population born in 1970s to resolve its housing needs. Another factor was the growing number of loans related to building savings and the support of young families asking for their first apartments. The growth in housing resulted also from worries of further increases in the prices of new apartments after 2008, when the end of the exception, related to the lower DPH (VAT) rate of 5% on housing, is expected.

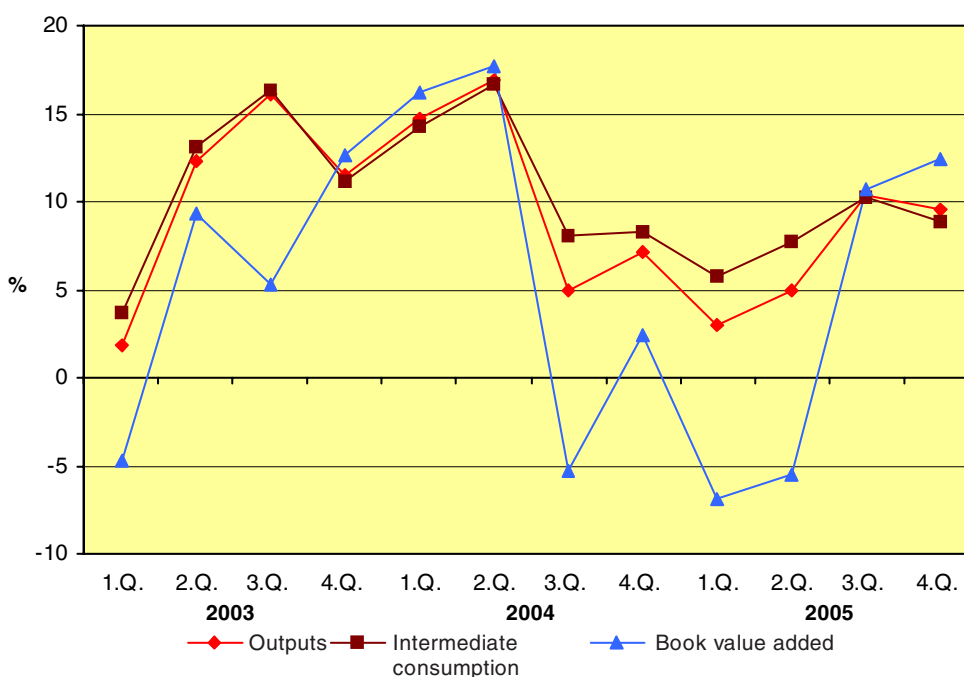
When following the long-term development in housing, the culminating trend in the growing number of started and completed apartments could be observed in 2004, thanks to the development in developers' apartment constructions supported by the continuous development in mortgages and in the higher volume of housing loans, based on the building savings, in the year (see Graph No. III.2.1).

III.3. Financial results of construction

Growth in value added slowed down

Total construction (including the estimate for subjects with 19 or fewer employees) reported the **slowdown in book value added** from 5.5% in 2004 down to 4.2% in 2005. The intermediate consumption grew by 0.9 point faster than outputs (7.6%). The development varied throughout the year (see Graph No. III.3.1). The results in the first half year were significantly influenced by the high comparison level, thanks to the enormous invoicing just before the increase in DPH (VAT) related to construction works and the arrangement putting most invoices related to supplied construction works in the second half. However, outputs started to grow faster

Graph No. III.3.1 Year-on-year changes in outputs, intermediate consumption and book value added in the construction total (in %)



Source: CZSO, MIT Graph

than the intermediate consumption at the year end and value added reached the growth of 12.4% in the 4th quarter.

Participation of **organisations with 100 or more employees**, where detailed data are available, in results of construction was very important. Their outputs participate in total outputs in a long term with almost one half (48.1%).

Faster growth in the intermediate consumption continued growing faster (12.3%), when compared with outputs (11.4%), also in this group of organisations. **However, the book value added made its pace of growth faster** from 5.2% in 2004 to 7.1% and reached CZK 42.7 billion (the total results show that some worsening took place in organisations with up to 99 employees). Value added thus grew for the last three years and the highest growth was reported in 2003 (12.3%). The development significantly fluctuated during the last year. There was some decline reported at beginning of the year, slight growth occurred consequently and it got into two-digit numbers during the second half year.

Book value added increased

The labour productivity based on value added increased year-on-year by 5.3% (current prices) to CZK 562.9 thousand. When compared with 2004, its growth slowed down from 6.3%, while employment declined in 2004 and increased by 1.4% in 2005. The growth in employment proved that construction enterprises were quite successful.

Intermediate consumption substantially influenced the development in total costs (they grew by 10.8%). It was the only cost item reporting the above-average growth (12.3%) and increasing its share in the costs by 1.1 point to 80.6%. Only other not specified costs decreased year-on-year, when the personal costs increased by 6.5% and depreciation by 8%.

Growing costs were influenced by the intermediate consumption

The more detailed annual statistical survey (Statement P 5-01) shows the trend of growth in the share of services in the intermediate consumption, while the share of consumed purchases decreased. The trend of extension of the number of suppliers of special services occurred to the detriment of the own coverage. The share of services increased from 41.9% in 1993 to 71.9% in 2003 (according to the last available data). Consumed purchases, i.e. materials and energies, made up 28.1% of the intermediate consumption in 2003.

Gross profit (the economic result before tax) grew for the fifth year and improved by 16.2% in 2005 year-on-year to CZK 11.3 billion (by 5.4% in 2004). The growing profits related to the still high demands for construction works and high prices of properties. Construction companies did not make their profits only by their production activities, but they also improved the balances of other revenues and other costs. The net operating surplus (the production effect) reflected in the growing profits (55.3%) and the improvement in balances of other revenues and other costs (the non production effect) by 45.7%.

Gross profit grew

Losses in larger construction organisations increased year-on-year by 47.3% to CZK 851 million, but the **share of loss making enterprises in the number of organisations decreased** by 2 points, down to 14.3%. Their share in employment was 9.5%.

A major part of construction enterprises belongs to the sector of **private national enterprises**. Their share in employment in organisations with 100 or more employees reached 77.6% last year and the share in outputs 74.4%.

Private national enterprises improved their financial indicators

This group of enterprises increased the book value added by 10.1% and the labour productivity based on value added by 8.1%. Their effectiveness improved in spite of the above-average growth in reported gross profits (22.3%) and the growing return on equity (by 2.1 points, to 23.6%). They experienced slightly faster growth in foreign capital, when compared with the own equity. Inventories grew by 8.6% and the turnover period was shorter by 0.8 day, to 21.3 days, thanks to high growth in revenues.

Enterprises under foreign control reported some worse indicators

Enterprises under foreign control play an important role in construction and that was proved by the shares of this group of enterprises in outputs (23.1%) and employment (17.5%). They achieved the following results in 2005:

- Lower profits by 3.7% and lower return on equity by 1.8 points, to 16.6%,
- Stagnation in value added and a higher number of employees (by 2.7%). That caused the declining labour productivity based on value added by 3.3%. Its level was by about one fifth higher than in private national enterprises,
- They achieved faster stock turnover by 15.7 days - the year-on-year improvement by 7.7 days,
- The shares of equity in both sectors were basically identical (34.9%), but the foreign capital lowered in these enterprises.

In summary, it can be said that the financial situation improved in larger enterprises, which participated mostly in large government orders and projects by foreign investors. In contrast, the situation in small companies worsened. This was caused by the still not satisfactory scope of construction works related to repairs and reconstructions of the existing housing units, which should be the good opportunity for the utilisation of capacities of this group of enterprises.

IV. EXTERNAL TRADE

IV.1. Overall results

Foreign trade in goods had finished with a surplus in the balance of trade for the first time since 1993. The surplus reached the level of CZK 40.4 billion. **Turnover of the external trade achieved the record value** of CZK 3 710.1 billion. Exports had the prevailing share (64%) in this increase (by CZK 238.3 billion). **Exports** grew year-on-year by 8.9%, to CZK 1 875.2 billion and were by 4.4 times higher than in 1993. **Imports** grew by 4.9%, to CZK 1 834.9 billion and were 4.3 times higher.

A surplus in the balance of trade was achieved for the first time in the history of the Czech Republic

The excellent results of the external trade reflected the performance and the growing competitiveness of the Czech economy, especially of industry. That participated in a fundamental way in the growth in GDP. **The importance of foreign trade for the economy results from the high share of the exported goods' value in the gross domestic product** (it reached 64%, in current prices and in the case of imports 62.6% - the year-on-year improvement of exports by 1.8 percentage points and, in contrast, the weakening of imports by 0.6 percentage point). The long-term development in these shares is presented in Table No. IV.1.1.

The share of exports in GDP was growing

Table No. IV.1.1 Shares of exports and imports in the foreign trade in goods in GDP in the period 1996 - 2005

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Share of exports in GDP, in %. current prices	35.9	39.7	42.5	44.5	52.1	54.8	51.9	53.6	62.2	64.0
Share of imports in GDP, in %. current prices	45.2	48.4	46.8	47.7	57.8	59.9	54.9	56.4	63.2	62.6

Source: CZSO

The value of exports per capita grew exceptionally fast. It reached USD 7.6 thousand in 2005 and grew year-on-year by 16%. It increased 3.7 times during the last decade. When compared internationally, they were rare dynamics and the country approached the most advanced countries from this point of view. The country achieved **to increase its share of exports in the total world exports** within the very hard conditions of the global competitiveness. The share almost doubled to 0.75% during the last decade. The Czech Republic share in the world number of population is only 0.2%.

Rare results, when compared internationally

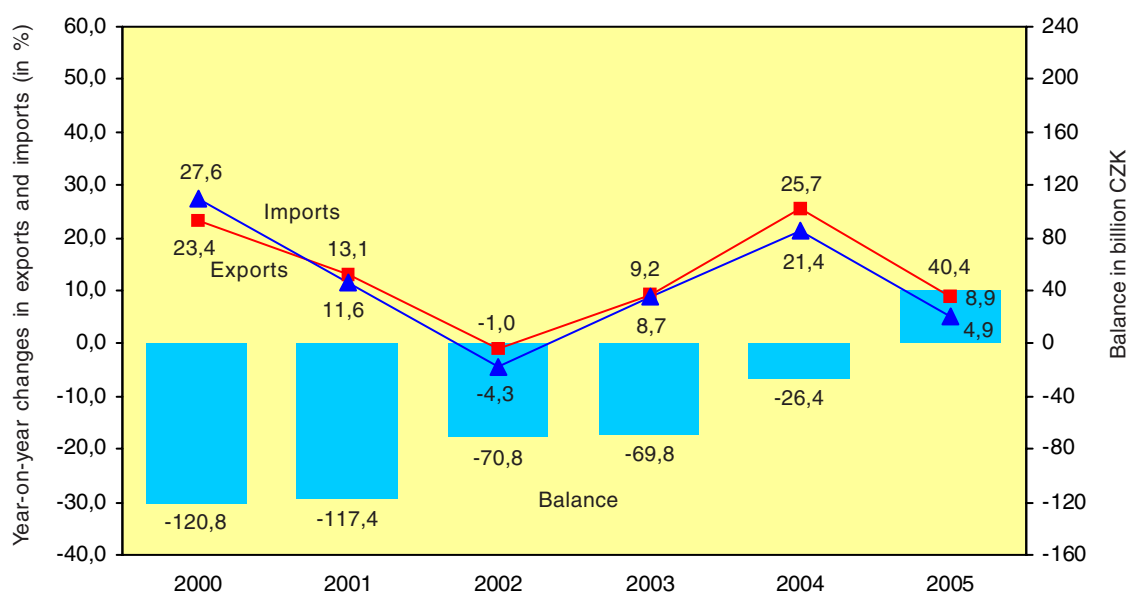
Basic indicators of external trade developed favourably for five years. The total deficit had progressively lowered since 2000 and changed into a surplus in 2005, when the exports pace had prevailed over imports since 2001 (Graph No. IV.1.1).

The surplus reflected the development of the last five years

The excellent results of the foreign trade were influenced (in addition to the positive impact of the Czech membership in EU) by:

- Growing industrial production, especially in the manufacturing industry

Graph No. IV.1.1 Development in foreign trade in 2000 - 2005 (the year-on-year changes in exports and imports in %, the balance in billion CZK)



Source: CZSO, MIT Graph

- Lower import-intensity (imports were partly replaced by domestic products)
- Inflow of foreign investments in previous years and their export orientation
- Improved balance of trade with countries, with which there had been a high trade deficit (France and USA, where deficits changed into surpluses, Italy and Japan, where the deficits lowered)
- Fast economic growth in neighbouring countries (especially Slovakia and Poland) that stimulated also the Czech economy.

The results were influenced in the opposite way by:

- Not favourite development in trade terms, especially the growing import prices of mineral fuels (year-on-year by 29.2%) and lower export prices of machinery and transport equipment (by 4%)
- Economic situation in the world, especially in the European Union (the slower growth in the economy of our biggest trading partner reflected in the weakening share of Germany in our exports by 2.8 percentage points, down to 33.4%)
- Increased imports of food (e.g. meat, dairy products, eggs, sugar, and tobacco products) and some kinds of cheap consumer goods, especially from China (especially shoes, clothes, furniture, and its parts)
- One time inclusion of the import of military jets Jas-Gripen worth more than CZK 10 billion.

Exports prevailed over imports in all quarters

Exports were ahead of imports in all quarters, when the two-digit growth in exports continued the previous year trend in the 1st quarter. Thanks to the high comparison base, the pace of growth was the slowest in the 2nd quarter (the dynamics got over 30% in the 2nd quarter of 2004). As Table No. IV.1.2 shows, the balance showed the declining trend. It was slightly negative in the 3rd quarter, but slightly positive in the 4th quarter.

Development in prices influenced the trade terms in a negative way

Trade terms, which express the export to import prices' ratio, had been positive until 2004 and favourably supported the value results of the foreign trade. **Since the beginning of 2005**, they progressively **worsened** to 98.3 (the 12-month average) because of decreasing export prices, while import prices slightly grew.

Table No. IV.1.2 Development in foreign trade in individual quarters of 2005

	1st quarter	2nd quarter	3rd quarter	4th quarter	2005
Exports (in %) in current prices	16.2	3.7	8.1	8.7	8.9
Imports (in %) in current prices	9.8	-1.3	6.2	6.0	4.9
Balance in 2004 (in billion CZK))	1.7	-8.8	-8.2	-11.1	-26.4
Balance in 2005 (in billion CZK)	26.2	14.5	-0.8	0.5	40.4
Y-o-y change in the bal. (bill. CZK)	24.5	23.3	7.4	11.6	66.8
Exports (in %) in constant prices	19.2	6.8	12.2	12.7	12.4
Imports (in %) in constant prices	11.4	-0.4	7.2	6.2	5.8

Source: CZSO

They were still positive (101.3) in the 1st quarter, while they became slightly unfavourable in the 2nd quarter (99.1). They were 97 in the 3rd quarter and finished with the value of 95.7 in the 4th quarter of 2005.

Table IV.1.3 presents the price changes in individual commodity groups.

Table No. IV.1.3 Trade terms (based on price indices)

SITC groups	Export price indices			Import price indices			Trade terms		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
Total	100.9	103.7	98.6	99.7	101.6	100.3	101.1	102.1	98.3
0 Food	97.2	103.5	96.9	97.2	102.5	99.2	100.0	101.0	97.7
1 Beverages and tobacco	106.6	90.1	105.8	100.1	105.1	100.5	106.5	85.7	105.3
2 Materials	101.4	102.1	98.0	101.0	109.1	101.1	100.4	93.6	96.9
3 Mineral fuels	105.5	120.1	116.5	105.9	106.5	129.2	99.6	112.8	90.2
4 Fats	100.2	101.4	94.4	104.2	102.8	89.3	96.2	98.6	105.7
5 Chemicals	100.6	107.3	101.4	99.6	101.7	98.1	101.0	105.5	103.4
6 Classified market products	101.2	108.2	99.3	101.5	104.3	99.1	99.7	103.7	100.2
7 Mach. and transport equip.	100.2	100.3	96.0	97.9	98.6	96.0	102.3	101.7	100.0
8 Manuf. consumer goods	101.1	100.2	97.5	98.4	99.4	92.7	102.7	100.8	105.2

Source: CZSO

The price development had a negative impact on the trade balance within the range of about CZK 46 billion (i.e. if excluded, the total surplus would double). The growth in both exports and imports was higher in **constant prices** (i.e. in tangible expression) than in current prices. Exports grew year-on-year by 12.4% and imports by 5.8%.

Prices slowed down the growth in the values of both exports and imports

The value results, expressed in crowns, were influenced by the year-on-year appreciation of the Czech crown towards both dollar and euro (by 6.8%, by 6.6% respectively). Dynamics in exports and imports, when expressed in USD and EUR, were almost identical and twice as fast as in the crowns (the growth in exports was 16.5% and in imports 12.2% in the dollars or euro). Exports reached USD 78.3 billion (EUR 63 billion) and imports reached USD 76.6 billion (EUR 61.7 billion). The surplus in the balance of trade was USD 1.7 billion and was thus better year-on-year by USD 2.8 billion. The balance was EUR 1.3 billion - the year-on-year improvement by EUR 2.2 billion.

The Czech crown appreciated towards both USD and EUR

IV.2. Territorial structure

The surplus in the balance of trade with EU got close to CZK 300 billion

Exports grew into all territories, the biggest increase related to the CIS countries (by 39.5%) followed by developing countries (by 22.7%) and European transition economies (by 18.4%). However, the export increment related to advanced market economies participated in the increased total volume of exports with more than three quarters in spite of the fact that its growth was below the average (7.4%, by 6.6% to EU). Tables in annexes IV.1 present detailed data on the turnover, exports, imports, and the balance, according to territories.

The share of CIS countries in the import increment equalled one half, thanks to the significant increases in imports of crude oil and gas from Russia. The pace of growth in imports from advanced market economies, and also from EU, was below average (3.1%, 3.5% respectively). Imports from developing countries decreased year-on-year by 7.4%.

The Czech Republic has got its trade with **EU countries** extensively developed and anchored. **More than three quarters of the total turnover related to these countries in 2005**. The share of EU countries in the year-on-year increment in total exports was 64.2%.

Surpluses in trade with EU had been progressively growing recently and influenced total results of the foreign trade. **The surplus** in the trade with EU reached the record level of CZK 278.1 billion in 2005 (i.e. the increase by CZK 53.7 billion) and it **was almost seven times higher than the total surplus in trade**. The following countries participated in this increase: France, Slovakia, Great Britain, Italy, and Spain. In contrast, even better results were prevented by the trade with the Netherlands, where the surplus in the balance of trade of CZK 25.5 billion changed to the deficit of CZK 3.6 billion. Table No. IV.2.1 presents the review of countries providing for the highest surplus.

Table No. IV.2.1 Review of countries and commodities providing for the highest surpluses in the balance of trade in 2005

Country	Achieved surplus bill. CZK	Y-o-y change bill. CZK	Highest surpluses in commodity groups (SITC) participating in the total result of the respective country in billion CZK			
Total CR	40.4	66.8	Mach. and trans. eq.	217.0	Market products	34.1
Germany	76.8	8.0	Mach. and trans. eq.	75.2	Man. consum. goods	31.8
Slovakia	63.2	11.6	Mach. and trans. eq.	39.6	Man. consum. goods	8.9
Un. Kingdom	40.9	10.4	Mach. and trans. eq.	32.9	Man. consum. goods	8.1
Austria	30.2	-3.4	Mach. and trans. eq.	18.1	Man. consum. goods	7.9
France	16.2	19.8	Mach. and trans. eq.	30.1	Man. consum. goods	1.0
Belgium	13.8	3.7	Mach. and trans. eq.	19.5	Man. consum. goods	4.7
Poland	11.8	4.5	Mach. and trans. eq.	20.4	Market products	4.3
Spain	11.7	9.0	Mach. and trans. eq.	16.9	Market products	1.9
Romania	11.5	3.1	Mach. and trans. eq.	6.2	Market productsy	2.8
					Man. consum. goods	15.9
					Materials	7.3
					Food	7.9
					Market products	5.2
					Materials	6.5
					Chemicals	2.7
					Man. consum. goods	0.6
					Chemicals	1.9

Source: CZSO

Trade with Germany was influenced by the German economic development

Germany retained the first rank among trading partners of the Czech Republic despite weak growth in the German economy in 2005 (by 1.1% of GDP), which influenced the trade, but which has been recovering from its slump. Thanks to slight growth in exports (by 0.5%), their share weakened by 2.8 percentage points, down to 33.4%. Imports were lower by 0.9% and their share weakened by 1.6 points to 29.9%.

However, the surplus in the balance of trade still increased by CZK 8 billion, up to CZK 76.8 billion. The machinery group contributed to this improvement with its surplus of CZK 75.2 billion. The lower surplus related to mineral fuels, thanks to the growing value of imports by more than one quarter, went in the opposite way.

The surplus in the balance of trade with **our second biggest partner, the Slovak Republic**, increased by CZK 11.5 billion, up to CZK 63.2 billion, thanks to the doubled growth in exports there (by 11.8%). In the territory, **it had been the second biggest surplus of the Czech Republic** that increased, when compared with 2000, by more than five times. The credit balance related to machinery and transport equipment increased by CZK 6.8 billion, while exports grew by 10.2% and imports lowered by 10.8%. Dynamics in exports of food (by 40%) increased the surplus within this group by CZK 3.6 billion.

The surplus from the trade with Slovakia approached that with Germany

The trade with **France** reported **the biggest year-on-year improvement among all other countries**. The deficit of CZK 3.6 billion (in 204) changed into the surplus of CZK 16.2 billion, when exports grew by 25.1% and imports decreased, at the same time, slightly (by 0.2%). The improvement happened mostly thanks to the machinery group, which achieved more than double time higher surplus, i.e. CZK 30.1 billion.

Trade with France was a surprise...

The deficit related to Italy decreased from CZK 18.3 billion down to CZK 7.4 billion in the result of the year-on-year growth in exports by 6.8%, while imports declined, at the same time, by 6.2%. This significant trade improvement took place thanks to machinery and transport equipment, when their deficit of CZK 5.1 billion changed into the surplus of CZK 4.9 billion mostly because of growing exports (by more than 15%).

... as well as with Italy

The third largest surplus of CZK 40.9 billion belonged to the trade with **the United Kingdom** (the year-on-year increase by CZK 10.4 billion) mostly in the result of lowering imports by 9.2%. The value of exports increased by 7.1%, mainly thanks to growing exports of machinery products (by more than one tenth).

United Kingdom participated in the surplus with almost one third

The big slump in trade took place in the trade with **the Netherlands**. The surplus of CZK 25.5 billion changed into the deficit of CZK 3.6 billion. Imports grew by more than one half, while exports declined by 5%. Increased imports were influenced mainly by the doubled imports of machinery and transport equipment.

The biggest worsening took place in the trade with the Netherlands

The trade with USA and Japan made up three quarters of our trade with **other advanced economies**. The deficit of CZK 15.5 billion related to USA changed into the surplus of CZK 0.9 billion. Exports increased by a quarter, while imports lowered by 11.9%. In the case of Japan, exports increased year-on-year by more than one third and the deficit lowered by CZK 3.8 billion, down to CZK 49.5 billion. Japan ranked third, according to the level of the deficit (see Table No. IV.2.2).

The lowered deficit, related to other advanced economies, was influenced especially by the trade with USA

The deficit in the trade with CIS became bigger by CZK 26.8 billion and **reached CZK 83.8 billion**. More than two thirds of the turnover in the trade with CIS was made by the trade with **Russia**. Exports, but mainly imports, reported significant growth. Imports were covered by exports by less than one third. The deficit in the trade with Russia increased year-on-year by CZK 24.1 billion, up to CZK 70.8 billion, and ranked the second behind China. The increased imports by CZK 33.5 billion were the result of the high prices of crude oil.

A bigger deficit in the trade with CIS...

Trade with **developing economies developed better and the deficit** lowered for the second year. It **lowered year-on-year by CZK 20.5 billion**, down to CZK 36 billion. Imports from this area lowered by 7.4% and, in contrast, exports increased by 22.7%. The lower deficit was influenced mostly by the trade in machinery and transport equipment, where the deficit decreased from CZK 39.3 billion down to CZK 24.4 billion. The deficit lowered especially in the trade with the Philippines

... but, in contrast, the lowering of the deficit in the trade with developing economies

Table No. IV.2.2 Review of countries and commodities with the highest deficit in the balance of trade in 2005

Country	Achieved surplus bill. CZK	Y-o-y changea bill. CZK	Highest deficits in commodity groups (SITC)) participating in the total result of the respective country in billion CZK			
China	-87.1	-3.1	Mach. and trans. eq.	-54.1	Man. consum. goods	-22.6
Russia	-70.8	-24.1	Mineral fuels	-83.7	Materials	-6.1
Japan	-49.5	3.8	Mach. and trans. eq.	-43.3	Man. consum. goods	-4.4
Taiwan	-16.0	0.1	Mach. and trans. eq.	-13.1	Man. consum. goods	-1.5
Azerbaijan	-13.1	-6.6	Mineral fuels	-14.0		
South Korea	-12.3	0.7	Mach. and trans. eq.	-10.8	Chemicals	-0.8
Malaysia	-8.8	4.9	Mach. and trans. eq.	-7.0	Materials	-0.9
Thailand	-8.2	-3.3	Mach. and trans. eq.	-5.4	Man. consum. goods	-1.8
Italy	-7.4	10.9	Man. consum. goods	-6.1	Chemicals	-4.2
					Market products	-7.3
					Market products	-3.6
					Market products	-0.3
					Man. consum. goods	-0.4
					Man. consum. goods	-0.6
					Market products	-0.6
					Food	-3.0

Source: CZSO

(by CZK 4.9 billion), Malaysia (by CZK 4.9 billion), and Costa Rica (by CZK 1.9 billion). The high deficit remained in the trade with Taiwan (CZK 16 billion), South Korea (CZK 12.3 billion), Malaysia (CZK 8.8 billion), and Thailand (CZK 8.2 billion).

The highest deficit within all territories occurred in the trade with other countries, the so-called countries outside Europe (China, North Korea, Cuba, Laos, Mongolia, and Vietnam). It reached CZK 88.7 billion (the year-on-year increase by CZK 3.3 billion). This group participated in imports with 5.3% and its share in exports did not reach 0.5%. The highest deficit happened mostly in manufactured consumer goods and market products (by CZK 4.1 billion, by CZK 1.9 billion respectively). The most important country in this group was China. Its share in imports from these countries reached 97% and in exports 88%.

The highest deficit in the trade with China became even higher

The highest deficit in the external trade occurred in the trade with China and reached CZK 87.1 billion, i.e. the year-on-year worsening by CZK 3.1 billion. Exports covered imports by only 7.6%, when the value of exports increased year-on-year by 2.4% and that of imports by 3.6%. Growth in imports was influenced especially by the groups of manufactured consumer goods and market products.

IV.3. Commodity structure

Machinery and transport equipment further strengthened their share in exports

The trade results improved in all groups of goods, with the exception of mineral fuels (see Table No. IV.3.1). The very dominant position of **machinery and transport equipment (SITC 7) increased its trade surplus by almost one half, to CZK 217 billion**. The group retained its share in exports above 50% (51% in fact), while it weakened in imports (by 2 percentage points year-on-year, down to 40.3%).

The surplus related to road running vehicles increased by more than a half

The increased surplus in the balance of trade related to the biggest commodity group SITC 7 was influenced mainly by (see Table No. IV.3.3):

- **Road running vehicles** reporting the surplus of CZK 146.6 billion, when the value of exports reached CZK 304.2 billion (experiencing the above-average growth) and the share in exports by the mechanical engineering group of 31.8%.

Cars, spare parts and relating accessories dominated in the case of road running vehicles.

Table No. IV.3.1 Commodity structure in the external trade by SITC in 2005

	Total	0	1	2	3	4	5	6	7	8	9
Exports (in %)	100.0	3.2	0.6	2.5	3.1	0.1	6.3	21.8	51.0	11.4	0.0
Imports (in %)	100.0	4.5	0.6	2.8	9.3	0.2	11.1	20.4	40.3	10.8	0.1
Balance in 2004 (billi. CZK)	-26.4	-24.7	-1.7	-5.6	-72.2	-3.1	-90.9	27.8	136.2	7.8	0.0
Balance in 2005 (billi. CZK)	40.4	-21.3	-1.1	-4.4	-112.4	-1.9	-85.0	34.1	217.0	15.9	-0.6
Y-o-y change in the bal. (billi.n CZK)	66.8	3.4	0.6	1.2	-40.2	1.2	5.9	6.3	80.8	8.1	-0.6

0 – food

1 – beverages and tobacco

2 – raw materials

3 – mineral fuels

4 – animal and vegetable fats

5 – chemicals

6 – Market products classified mainly by materials (they are mainly leather and leather products, products made of rubber, wood, paper, including paper, textile products, with the exception of clothes, cement, glass, porcelain, ceramics, iron and steel, non ferrous metals, and products made of metals)

7 – Machinery and transport equipment

8 – Manufactured consumer goods (they are mainly prefabricated buildings, healthcare and installation and other similar technologies, furniture, haberdashery, clothes, shoes, instruments, weapons, ammunition, sport goods, and toys)

9 – Not classified commodities

Source: CZSO

The share of cars in total exports increased by 1.1 percentage point, to 8%, and, in contrast, it weakened in imports by 0.6 point to 2.5%, when the surplus in the balance of trade increased by CZK 39.4 billion, to CZK 103 billion.

The biggest increases in exports of cars took place to France (by CZK 5.6 billion), Germany (by CZK 4.6 billion), Italy (by CZK 3.9 billion), Romania (by CZK 3.1 billion), and Spain (by CZK 2.4 billion). The review of the ten biggest car purchasers in 2005 is presented in Table No. IV.3.2.

Table No. IV.3.2 Biggest customers of cars in 2005

Country	Exports in bill. CZK	Y-o-y change in %	Share in %
Total	149.2	26.5	100.0
Germany	35.4	14.9	23.7
United Kingdom	13.9	13.2	9.3
France	10.2	123.6	6.8
Italy	9.8	66.1	6.6
Slovakia	8.7	-5.7	5.8
Poland	7.6	-23.5	5.1
Austria	6.2	17.8	4.2
Romania	4.8	190.0	3.2
Hungary	4.3	2.7	2.9
Belgium	3.9	61.8	2.6

Source: Search statistical system of the MIT external trade

- **Machinery and equipment generally used in industry** more than doubled the surplus in the balance of trade (to CZK 37.1 billion), when exports increased by 15.3%, while imports lowered, at the same time, by 3.7%.
- **Office equipment and the equipment for the automated data processing** increased the surplus by two thirds, to CZK 31.4 billion, when the pace of growth in exports was almost four times faster than the pace in imports (15.5% to 4.1%).

The market products classified mainly by material (SITC 6) achieved the second highest surplus of CZK 34.1 billion by its increase of CZK 6.3 billion in spite of the fact that they reported the below-average growth in exports (5.1%) and imports (3.8%). Their shares weakened in exports by 0.8 point, down to 21.8%, and in imports by 0.2 point, down to 20.4%.

The surplus related to market products increased...

Table No. IV.3.3 Machinery and transport equipment in 2005

	Exports		Imports		Trade balance	
	2005 bill. CZK	Y-o-y change	2005 bill. CZK	Y-o-y change	2005 bill. CZK	Y-o-y ch. bill. CZK
SITC 7 - Total	955.9	9.1	738.9	-0.1	217.0	80.8
71 - Power generating machinery and equipment	52.3	3.7	51.5	17.0	0.8	-5.7
72 - Machinery equipment for particular industries	59.4	9.7	49.9	-6.8	9.5	9.0
73 - Metal working machines	17.7	4.1	17.4	-23.8	0.3	6.1
74 - General industrial machinery and equipment	134.8	15.3	97.7	-3.7	37.1	21.6
75 - Office equipment and the equipment for automated data processing	121.8	15.5	90.4	4.1	31.4	12.8
76 - Telecommunication and sound recording and reproducing equipment	67.6	-12.0	62.1	-0.4	5.5	-9.0
77 - Electrical equipment, and appliances	181.6	-0.9	189.7	-5.2	-8.1	8.7
78 - Road vehicles	304.2	18.4	157.5	0.9	146.7	46.0
79 - Other transport equipment	16.4	8.3	22.7	77.7	-6.3	-8.7

Source: CZSO

... as well as that related to manufactured consumer goods

The surplus related to **manufactured consumer goods** (SITC 8) doubled to CZK 15.9 billion, thanks to the doubled pace in the growth in exports, when compared with imports (8.1%, 4.1% respectively). The shares of manufactured consumer goods in both exports and imports negligibly weakened (to 11.4%, to 10.8% respectively) for the benefit of machinery and transport equipment.

Chemicals decreased its deficit

Chemicals and related products (SITC 5) left their position reporting the highest deficit in the commodity structure after three years. They decreased the deficit by CZK 5.9 billion, down to CZK 85 billion, while their pace of growth was faster than in imports (13.9% to 4.4%). The coverage of imports by exports has been improving in recent years. Imports were covered by 58.2% in 2005 and that was the year-on-year improvement by 4.8 percentage points.

Prices of crude oil and gas increased, on average, year-on-year by about one half

The growing import prices influenced the increasing value of imports of mineral fuels (SITC 3). The import prices increased in the 1st quarter year-on-year by 18.6%, by 26.2% in the 2nd quarter, by 33.9% in the 3rd quarter, and by 36.3% in the 4th quarter. They increased on average during the year by 29.2%. **The price of Brent crude oil** was the highest in September with the figure USD 63.73 per barrel and it reached the average price USD 55.08 per barrel. It was thus by 45% higher than in the previous year. **The price of natural gas** increased up to USD 270 per thousand cubic metres in December and the average price in the year was USD 227 per thousand cubic metres, while it was USD 154 per thousand cubic metres in 2004. Graph No. IV.3.1 shows the price development during the year.

Big increase in the exports of cereals lowered the deficit in the balance of trade in food

Food and live animals (SITC 0) made the group, which, according to the deficit level of CZK 21.3 billion, was ranked third from the commodity structure point of view. The above-average growth in exports improved year-on-year the coverage of imports by exports by 8.2 percentage points, to 73.9%. The year-on-year lowering of the deficit by CZK 3.4 billion was influenced especially by the increasing surplus related to cereals and by the lowering deficit related to feeds.

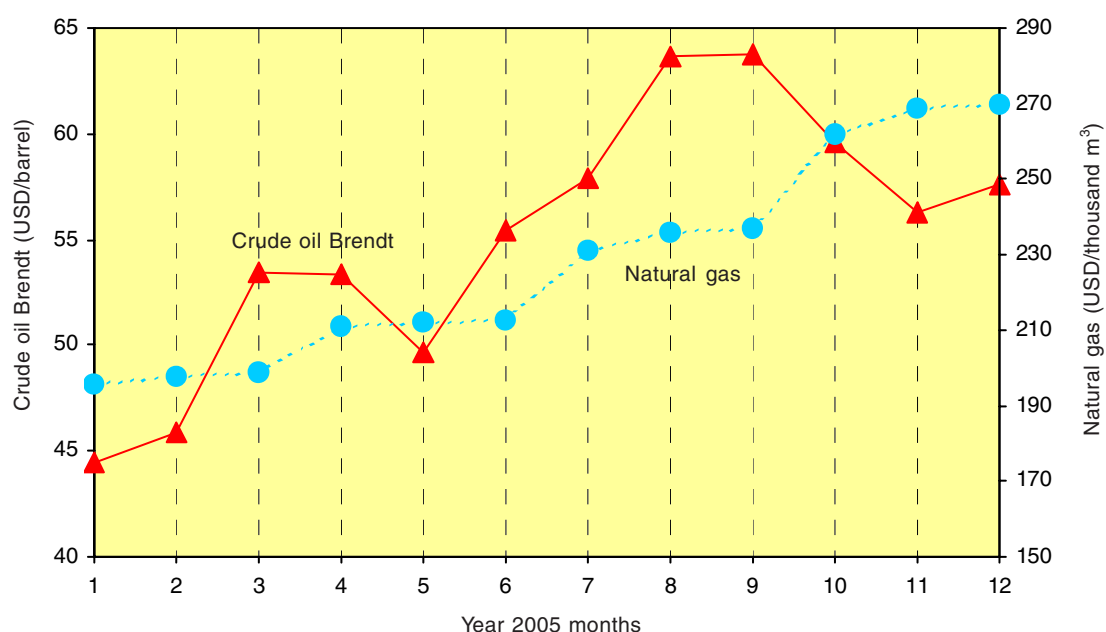
The deficit in the balance of trade in raw materials lowered

Raw materials, inedible products, with the exception of fuels (SITC 2) decreased its deficit from CZK 5.6 billion, down to CZK 4.4 billion, thanks to higher lowering of imports, when compared with exports (by 2.6%, by 0.3% respectively). Exports lowered in all items, with the exception of oily seeds, raw Indian rubber and fibre. In imports, the value of oily seeds and textile fibres reported the lowest values.

Import shares for manufacturing grew

In the structure of **imports, according to the envisaged way of use**, imports for manufacturing grew the fastest (by 7.8%). This proved the vitality of the economy

**Graph IV.3.1 Development in prices of crude oil and natural gas in world stock exchanges in individual months of 2005
(averages taken from daily reports)**



Source: CZSO, MIT Graph

and of the general economic growth. Their shares in total imports increased year-on-year by 1.3 points, to 50.5%. The growing imports for personal consumption (by 5.5%) led to the enriched offer on the internal market. Their shares in total imports increased year-on-year only negligibly (by 0.2 percentage point). The value of imports for investments decreased by a half percentage point and the share lowered by 1.5 points (Table No. IV.3.3). This related to the implementation of specific investment projects and with the ability of domestic suppliers to satisfy demanding needs.

Table No. IV.3.3 Structure of imports, according to the use in 2003 - 2005

	2003		2004		2005		Change in % 2005/2004
	in billion CZK	%	in billion CZK	%	in billion CZK	%	
Imports for:							
- Personal consump.	304.2	21.1	381.4	21.8	402.5	22.0	5.5
- Investments	421.0	29.2	507.5	29.0	505.1	27.5	-0.5
- Manufacturing use	715.5	49.7	859.5	49.2	926.6	50.5	7.8

Source: MIT

The share of HI-TECH products negligibly strengthened in exports (by 0.2 percentage point) to 12.3%, while it slightly weakened **in imports** (by 0.6 percentage point) to 14.5%. The deficit related to these products lowered year-on-year by one third, down to CZK 36.6 billion. The biggest export item - computing technology - achieved the value of almost CZK 120 billion, thanks to its growth by more than 15%, and it reported the highest surplus of CZK 33.3 billion. **In imports**, the highest value belonged to electronic and telecommunication products (the imports reached the value of CZK 95.2 billion). They created the biggest deficit of CZK 37 billion in the group. The import of military jets Jas-Gripen reflected in the high growth taking place in aircraft technology.

Computing technology dominated in the exports of HI-TECH products again and electronics and telecommunication dominated in imports

V. INTERNAL TRADE AND FINAL CONSUMPTION BY HOUSEHOLDS

V.1. Trade Sectors

Trade (NACE G) includes the area of sales and repairs of motor vehicles and the sale of fuels (NACE 50), the area of wholesale (NACE 51), and the area of retail (NACE 52). The share of trade in the total number of enterprising units within the national economy makes almost one third and its share in employment and creation of GDP exceeds 12%. **Internal trade is the mediator in the transfer of demand signals influencing the entire economic development and an important factor for the living standard.**

Important position of trade in the national economy

Total revenue from the sale of goods and services reached the volume of CZK 2 746.9 billion, in current prices without DPH (VAT) in 2005 and it **increased** year-on-year **by 5.3%**. The revenue grew differently in all trade areas. The **biggest growth took place in the automotive segment** (by 7.9%) and **in wholesale** (by 5.8%). The slower pace took place in the retail sales (by 2.6%). **Wholesales** participated with almost **60% in total revenue** and retained the dominant position within the trade sector (for more details see Table No. V.1.1).

Revenue in the automotive segment grew the fastest

Table No. V.1.1 Revenue in the trade sector (current prices without DPH - VAT)

	in billion CZK		Growth in %	Share in %	
	2004	2005	05/04	2004	2005
Trade sector (G = NACE 50, 51, 52)	2 609.2	2 746.9	5.3	100.0	100.0
Motor vehicles and fuels (NACE 50)	365.8	394.9	7.9	14.0	14.4
Wholesale (NACE 51)	1 552.8	1 643.2	5.8	59.5	59.8
Retail sales (NACE 52)	690.6	708.8	2.6	26.5	25.8
thereof: Large enterprises*)	283.9	305.4	7.6	x	x
Other enterprises	406.7	403.5	-0.8	x	x

Source: CZSO (a quarter year survey)

*) Enterprises with 100 or more employees, including hypermarkets and supermarkets

The year-on-year **increment** in the pace of growth in the revenue **by the automotive segment** (NACE 50) by 5.5 percentage points related mainly to growing sales of new cars and spare parts.

The lower pace of growth in the revenue **by wholesale**, by almost 7 percentage points, related to the lower growth in the value of total imports (they increased by 21.4% in 2004, while by only 4.9% in 2005). The year-on-year **slower** pace of growth in **retail sales** by 0.8 percentage point was influenced especially by lower prices of other than food products.

Outputs increased year-on-year by 4.8% in the entire trade sector, while **the intermediate consumption** grew by 4.6% and **the book value added** grew by

The trade margin lowered in the sector

5.0%. The trade margin participated in outputs with 62.0% (63.5% in 2004). **The average trade margin** lowered year-on-year by 0.4 percentage point, down to 15.5%, in the entire sector. The margin lowered year-on-year in wholesale by 0.7 percentage point, down to 13.7%, while it rose by 0.1 percentage point, to 21.9%, in retail sales. The margin remained at the value of 10.3%, without any change, in the automotive segment.

The concentration process in trading continued in a varied way

Large commercial enterprises with 100 or more employees **increased their share in total revenue** for years (see Table No. V.1.2). This was contributed to by the development in prices, which slowed down the revenue and reflected in the financial situation in enterprises. Small, financially weaker enterprises managed the worsening situation with difficulties.

Table No. V.1.2 Development in the market share of trade enterprises with 100 or more employees in total revenue (in %, current prices without DPH - VAT)

	1998	2000	2002	2003	2004	2005
- Motor vehicles and fuels (NACE 50)	17.0	23.8	24.2	27.6	30.0	27.9
- Wholesale (NACE 51)	24.3	23.6	23.4	28.0	30.4	31.2
- Retail sales (NACE 52)	27.8	31.5	36.0	37.3	41.1	43.1
Total trade (NACE 50, 51, 52)	24.2	25.5	26.9	30.6	33.2	33.8

Source: CZSO

The process of concentration in individual trading areas has been **differentiated** recently. **The shares of large enterprises in retail sales continued to grow** at the same paces and reached 43.1%. Some slowdown or even lowering took place in other trading areas.

The share of multinational organisations in revenue continued growing

Multinational organisations, which have been gaining ground in all trading areas, **had the strongest position in retail sales**. They achieved almost 80% of the revenue volume within large enterprises with 100 or more employees.

The prevalence of multinational enterprises, when compared with domestic

Table No. V.1.3 Domestic and multinational retail trade businesses with 100 or more employees (NACE 52, data from 2005)

		2004	2005	Change in %	Share in total in %	
				05/04	2004	2005
Number of active units	Total	179	189	5.6	100.0	100.0
	Domestic	124	124	-0.2	69.3	65.5
	Multinational	55	65	18.7	30.7	34.5
Number of employees (in thousand people)	Total	98.2	105.5	7.4	100.0	100.0
	Domestic	37.9	35.1	-7.4	38.6	33.3
	Multinational	60.3	70.4	16.8	61.4	66.7
Revenue volume from goods, in curr. prices without DPH (VAT)	Total	273.1	293.8	7.6	100.0	100.0
	Domestic	81.1	61.2	-24.5	29.7	20.8
	Multinational	192.0	232.6	21.1	70.3	79.2
Average number of employees per enterprise	Domestic	306	284	-7.2	x	x
	Multinational	1101	1083	-1.6	x	x
Revenue from the sale of goods per employee	Domestic	2.14	1.74	-18.4	x	x
	Multinational	3.18	3.30	3.7	x	x
Trade margin in %	Domestic	20.3	20.9	x	x	x
	Multinational	21.6	21.6	x	x	x

Source: CZSO, own MIT calculations

retail enterprises, resulted especially from their financial strength, high productivity, and trading experience. That reflected in the purchase terms negotiated with contractors. There have been some provisions made recently, which should protect smaller contractors against the terms imposed by these enterprises and chains and which should create equal conditions for all participants in the contractor-customer relations. Data in Table No. V.1.3 presents the comparison of results by multinational enterprises with the domestic ones with 100 or more employees.

While **the number of employees** increased year-on-year by almost 17% in multinational enterprises, it lowered by more than 7% in domestic businesses. **The volume of revenue from goods** increased year-on-year by 21.1% in the case of multinational enterprises, while it decreased by a quarter in the case of domestic businesses. **Revenue per employee** was substantially higher in multinational enterprises, when compared with the domestic ones, and it increased year-on-year by 3.7%, while it lowered by more than 18% in domestic enterprises.

V.2. Final consumption by households

The consumers' behaviour and its changes significantly influence the economic growth. **The consumer demands** in the internal market are frequently characterised by the development in the physical volume of retail sales (NACE 52, in constant prices) and in the automotive segment (NACE 50). This volume increased year-on-year by 3.8%¹⁴ in 2005 (2.5% in 2004), when **the revenue of the automotive segment** grew especially strongly by 4.1% (by 1.5% in 2004). **The retail sales** increased the revenue by 3.7%, i.e. by 0.7 percentage point, when compared with the previous year. This confirmed the stable potential in demand growth in this area (see Table No. V.2.1).

Sales were growing for seven years and only the pace of growth changed

Table No. V.2.1 Development in retail revenue, including the automotive segment
(NACE 50 and 52, the year-on-year changes in %, constant prices, including DPH - VAT)

	2001	2002	2003	2004	2005				
					1st Q	2nd Q	3rd Q	4st Q	Year
Retail sales. motor vehicles and fuels (NACE 50 and 52)	4.5	3.0	4.9	2.5	3.9	4.7	3.9	2.8	3.8
- Retail sales (NACE 52)	3.2	3.2	4.0	3.0	3.2	3.1	4.0	4.2	3.7
- Automotive segment (NACE 50)	7.4	2.4	6.9	1.5	5.5	8.0	3.6	-0.2	4.1
thereof: Motor vehicles (NACE 50.1 - 50.4)	8.9	-1.0	5.6	0.9	4.4	10.1	2.5	1.7	4.7
Fuels (NACE 50.5)	4.5	8.9	9.1	2.6	7.2	4.2	5.2	-3.4	3.0

Source: CZSO (monthly surveys)

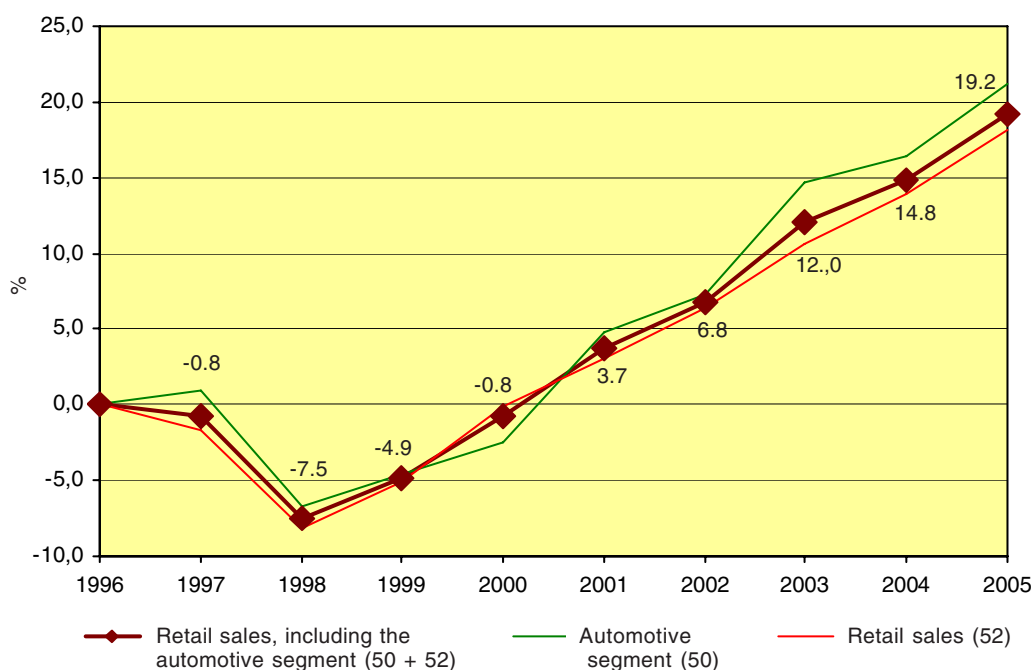
Retail shops, where a food assortment prevailed, increased year-on-year their sale volume by 3.1%, while the shops, where a non food assortment prevailed, increased it by 4.1% (the volume of sales of books and paper grew the least - by

¹⁴ The sources of this information were the monthly surveys of revenue indices (including DPH - VAT) done by CZSO and published in the form of Fast Info. The numerical figures from these surveys may differ, when accumulated, from the data from quarter year revenue surveys.

1.7%, while, in contrast, the biggest increases took place in sales of textiles and shoes - by 11.8%).

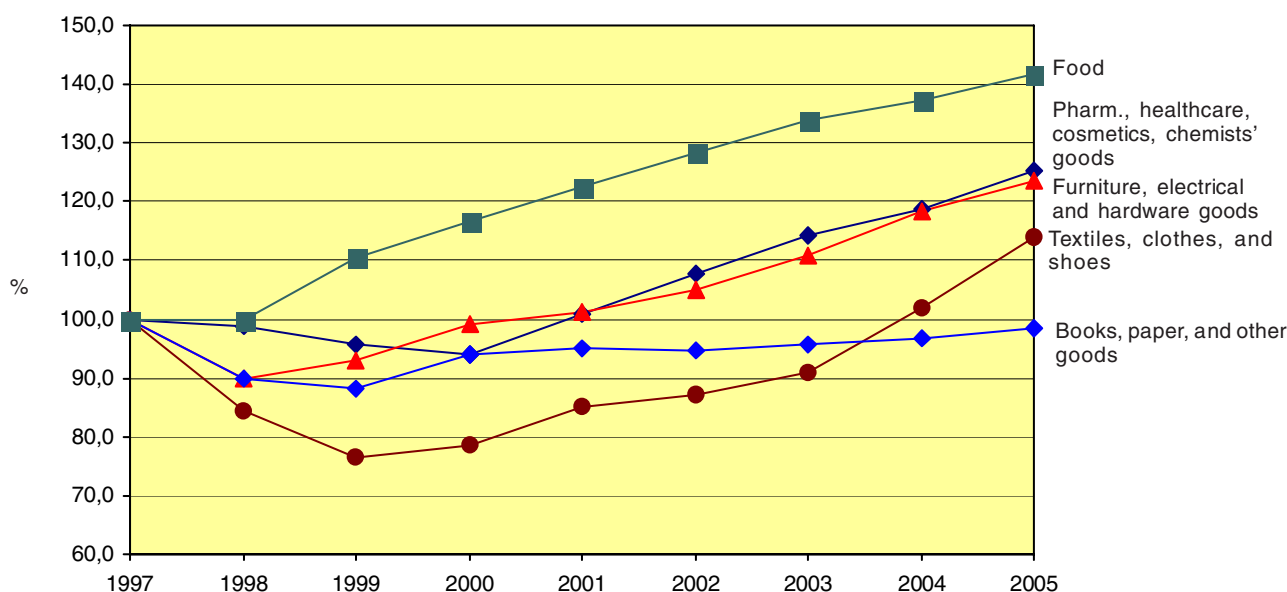
The physical volume of sales has been growing continually since the beginning of 1999, **for the seventh year** in a row (Graph No. V.2.1). The growth intensity changed in individual years as well as the internal structure and **factors influencing it**.

Graph No. V.2.1 Long-term development in revenue by retail sales and automotive segment (NACE 50, 52, constant prices, including DPH - VAT, year 1996 = 100)



Source: CZSO, MIT Graph

Graph No. V.2.2 Development in revenue by retail sales of individual assortments in 1997 - 2005 (NACE 52.1 - 52.4, constant prices, including DPH - VAT, 1997 = 100)



Source: CZSO, MIT Graph

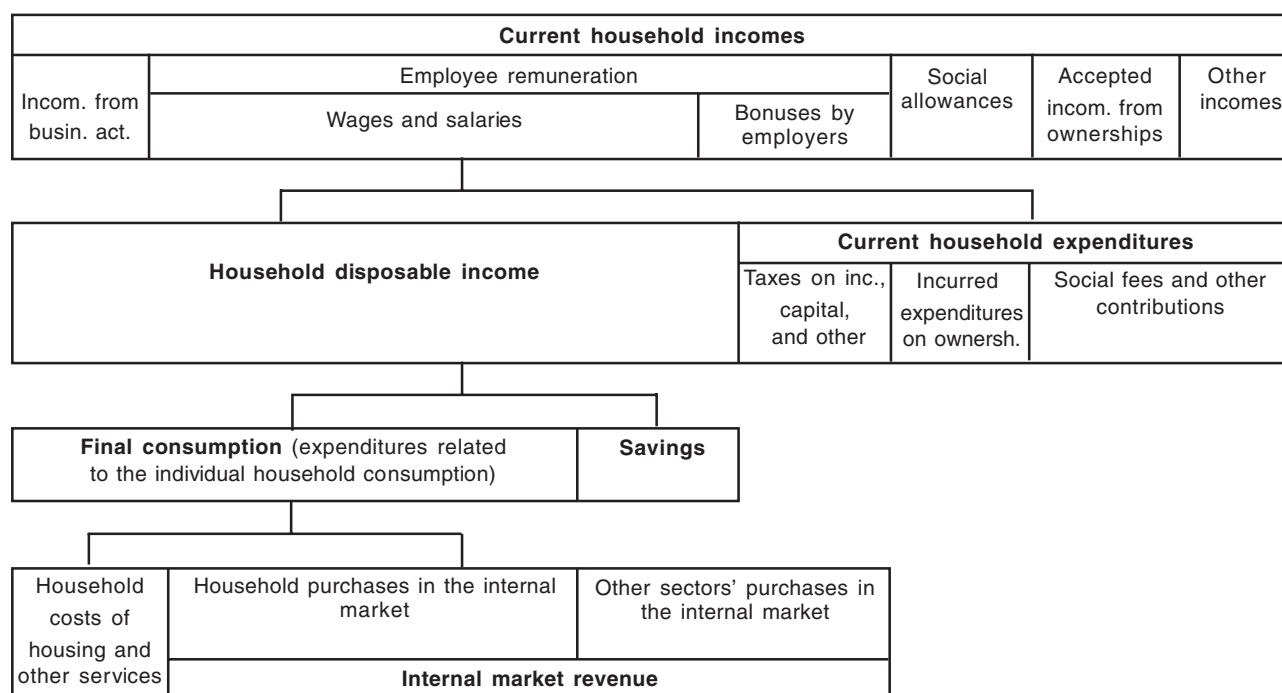
However, purchasing activities by consumers were significantly different in individual assortment groups **within the structure of revenue by the retail sales**. The saving provisions imposed in 1997, which resulted in a lower purchasing strength in 1998, reflected in the development of sales of individual commodities differently. Consumers' limited purchases of all non food assortments (see Graph No. V.2.2). Nevertheless, the lowering of the purchase strength was the least sensitive in **the sales of food** and they **started regularly growing** after one year stagnation. They had grown by 42% by 2005. **The growing revenue renewed fast, after some smaller slumps, in the assortment „furniture, electrical and hardware goods“, but also in the area of „pharmaceuticals, healthcare equipment, cosmetics, and goods sold by chemists“.** The most sensitive reactions occurred in the revenue from **„textiles, clothes, and shoes“**, which started growing more significantly only **in last two years**. In contrast, the sales of **„books and paper products“** were stagnating for some long time and they have not got **over the slumps** in 1998 and 1999.

Different development in revenues, according to the assortment

The development in revenue depends on the development in household incomes. It is usually connected with the growth in wages. However, these **dependencies are influenced by a number of other factors**. This is presented, in a schematic way, in Graph No. V.2.3.

The influence of growing incomes and other factors

Graph No. V.2.3 Scheme of household incomes transformation to the revenues within the internal consumer market



Prepared by: MIT

Current incomes within the household sector increased year-on-year by CZK 104.5 billion in 2005, i.e. by 4.8%, and reached CZK 2 273.0 billion. The biggest part was made up by **wages and salaries** (more than 41%), **incomes from business activities** (about 21%), and **social allowances** (about 16%). The biggest year-on-year increases took place in employee remunerations - by CZK 68.1 billion, i.e. by 5.7%. The included volume of wages and salaries grew by CZK 51.0 billion and the volume of social bonuses from employers by CZK 17.1 billion. The volume of social allowances increased year-on-year by CZK 16.1 billion, i.e. by 4.8%. Incomes from business activities grew by CZK 10.1 billion, i.e. by 2.2%. The year-on-year **pace of growth in current incomes** within the household sector,

Household incomes were growing, but the pace of growth slowed down...

... the scope of current expenditures influenced the purchase strength

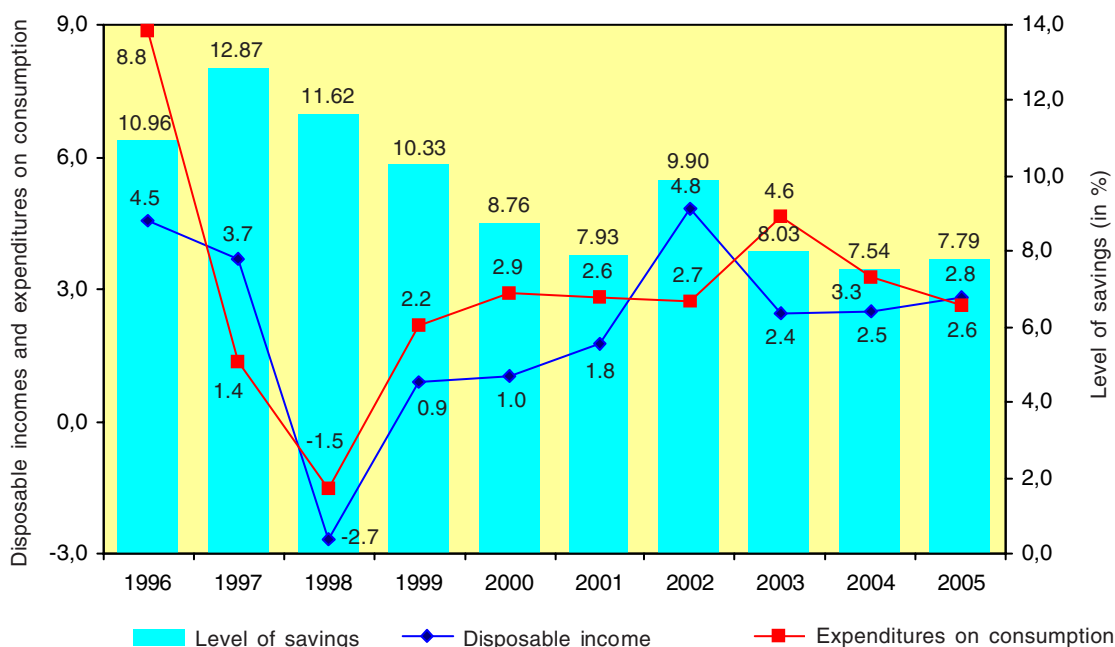
Growth in incomes and that in consumption equalled

in current prices, had been permanently **slowing down** since 2002 and it was 6.4% in 2002, 5.9% in 2003, and 5.3% last year.

Households were left with the so-called **disposable incomes** after covering current expenditures (mostly taxes and insurance fees). These incomes are determined for the coverage of consumption and for the creation of savings. They reached the sum of CZK 1 521.6 billion in 2005 and that was the year-on-year increase by 3.8%, by 2.8%, when expressed in real terms. Growth in the disposable incomes slowed down (in spite of growing total incomes) because of **the increased share of current expenditures** (from 32.4% of total incomes in 2004 to 33.1% in 2005).

The household consumption had been growing since 1999 (with the exception of 2002) **faster than the disposable incomes** (see Graph No. V.2.4). This resulted in the lower creation of savings. The paces of growth in incomes and in consumption equalled in 2005 and that reflected in the year-on-year **increases in savings and in the stopping of further lowering of savings**.

Graph No. V.2.4 Development in the household disposable income, in the final consumption, and in the saving level in 1996 - 2005 (the disposable income and expenditures on the consumption in constant prices - the year-on-year change in %, saving levels in %)



Source: CZSO, MIT Graph

The volume of gross savings increased year-on-year by CZK 7.9 billion, i.e. by 7.2% in nominal terms. **The level of savings** (the volume of gross savings to the disposable income ratio) increased year-on-year by 0.25 percentage point, to 7.79%. However, from the long-term point of view, the level of savings was **permanently lowering** (from more than 10% achieved in the second half of 1990s).

Faster growth in retail revenue prevented transfers in the expenditure structure

There have been two contradicting trends taking place for a long time in the structure of total consumption expenditures by households. **In the long-term, the share of housing expenditures has been increasing.** It includes, in addition to the rent, also payments related to energy deliveries, water deliveries, and other services (caused mostly by the rising prices). Mortgages, which households have been paying off in connection with their investments into their own housing, go against the higher pace of growth in sales within the consumer market. The share of expenditures related to telecommunication services has been also growing and

reflect the spread of new communication technologies. In summary, the volume of household expenditures related to housing increased threefold and to communication sixfold during last 10 years. Household expenditures related to purchases in retail shops, however, increased by less than twofold. The share of expenditures related to **the purchases of goods within the internal market weakened** during this development (see Table No. V.2.3).

Table No. V.2.3 Development in the structure of net monetary expenditures of households in 1999 - 2005, in %

	1999	2000	2001	2002	2003	2004	2005*)
Total net monetary expenditures (consumpt.)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Expenditures related to purchases in retail shops, including motor vehicles	61.4	60.4	59.6	57.8	56.9	56.7	54.8
Housing, water, power, and fuels	16.7	17.3	17.4	18.6	19.7	18.2	20.5
Other expenditur. incurred outside the retail market	17.1	17.1	17.8	18.5	18.2	19.9	19.4
Public catering and accommodation	4.8	5.2	5.2	5.1	5.2	5.2	5.3

Source: CZSO - Statistics of family accounts

*) Data from 1st - 3rd quarters were used for 2005

The difference between household purchases on the internal market and the volume of revenue by the internal market (see Graph No. V.2.3) was influenced by the inclusion of purchases by the public and business sectors, but also by purchases made by foreign visitors, including the so-called purchase tourism.

In addition to households, other sectors also influenced the development in trade revenue

ANNEX

Tables

- I. Macroeconomic indicators
- II. Industry
- III. Construction
- VI. External trade
- V. Domestic market
- VI. Financial conditions

Graphs

- Manufacturing industry by institutional sectors
- Quartile distribution of labour productivity by sectors

I. MACROECONOMIC INDICATORS

(per cent, the corresponding period of previous year = 100)

Indicator	Unit	2004	2005														2005	
			Jan.	Feb.	March	1.-3.	April	May	June	1. - 6.	July	Aug.	Sept.	1. - 9.	Oct.	Nov.		Dec.
GDP (constant prices 1995)	bln CZK	1774.2				442.4				923.5				1404.9				1879.8
	%	4.7				5.3				5.6				5.6				6.0
consumption of households	bln CZK	945.1				226.0				466.9				716.6				969.8
	%	3.3				2.1				2.5				2.6				2.6
consumption of government	bln CZK	375.6				87.1				182.6				276.5				378.6
	%	-2.7				-1.4				-0.3				1.3				0.8
consumption of non-profit institutions	bln CZK	10.9				2.7				5.5				8.3				11.1
	%	11.3				3.5				3.2				2.3				1.9
gross fixed capital formation	bln CZK	579.0				137.9				291.1				444.8				600.5
	%	5.3				3.0				3.1				3.5				3.7
changes in stocks and reserves	bln CZK	25.3				3.8				13.3				21.6				4.3
exports of goods and services	bln CZK	1715.7				440.1				923.8				1397.7				1906.5
	%	21.4				17.5				11.5				11.4				11.1
imports of goods and services	bln CZK	1940.8				462.3				975.4				1486.2				2034.9
	%	18.4				10.4				4.4				5.0				4.8
Inflation rate (annual rolling average)	%	2.8	2.8	2.7	2.6		2.6	2.5	2.4		2.2	2.1	2.0		2.0	1.9	1.9	
Consumer prices																		
Total	%	2.8	1.7	1.7	1.5	1.6	1.6	1.3	1.8	1.6	1.7	1.7	2.2	1.7	2.6	2.4	2.2	1.9
Including:																		
food and non-alcoholic beverages	%	3.4	-0.5	-0.2	-0.4	-0.3	-0.8	0.2	0.4	-0.2	-0.7	-0.8	-0.3	-0.3	0.3	0.4	-0.9	-0.3
alcoholic beverages, tobacco	%	2.9	3.8	3.9	3.7	3.8	2.7	1.0	0.6	2.6	0.2	0.0	0.0	1.7	0.2	0.2	0.7	1.4
clothing and footwear	%	-4.0	-4.3	-4.6	-4.8	-4.5	-4.5	-4.7	-4.9	-4.6	-5.1	-5.5	-5.7	-4.9	-6.2	-6.3	-6.6	-5.3
housing, water, energy and other fuels	%	3.5	3.5	3.4	3.4	3.4	3.6	4.0	4.0	3.6	4.1	4.1	4.1	3.8	5.1	5.1	5.1	4.1
furnishings, households equipment and maintenance	%	-1.9	-2.2	-2.2	-2.2	-2.2	-2.4	-2.0	-2.1	-2.2	-2.0	-1.9	-2.0	-2.1	-1.9	-1.8	-1.8	-2.0
health	%	3.1	7.7	7.8	7.9	7.8	8.0	7.3	7.8	7.7	7.7	7.6	7.6	7.7	7.4	7.4	7.4	7.6
transport	%	2.2	-1.8	-2.0	-2.5	-2.1	0.0	-1.2	0.2	-1.2	2.1	2.2	6.8	0.4	5.6	4.2	3.6	1.4
postal services and telecommunications	%	12.9	-2.6	-2.4	-2.4	-2.5	-2.4	-1.3	14.2	0.5	14.6	16.1	15.6	5.4	14.0	14.0	14.1	7.6
recreation and culture	%	1.0	2.2	2.5	2.3	2.3	1.8	1.8	0.9	1.9	0.8	0.9	1.1	1.6	2.6	2.4	2.4	1.8
education	%	2.6	2.4	2.7	2.9	2.7	2.9	2.6	2.5	2.7	2.5	2.5	1.4	2.5	1.8	1.8	1.8	2.3
restaurants and hotels	%	5.9	7.7	8.0	7.8	7.9	7.9	3.7	3.4	6.4	3.0	2.9	3.0	5.2	2.9	2.8	2.7	4.6
miscellaneous goods and services	%	4.2	2.5	2.2	1.8	2.1	1.9	0.8	0.3	1.6	0.2	0.2	0.4	1.1	0.6	0.5	0.5	1.0

Source: Czech Statistical Office

I. MACROECONOMIC INDICATORS

(per cent, the corresponding period of previous year = 100)

Indicator	Unit	2004	2005															2005
			Jan.	Feb.	March	1.-3.	April	May	June	1. - 6.	July	Aug.	Sept.	1. - 9.	Oct.	Nov.	Dec.	
Producer prices (annual rolling average)																		
industrial	%	5.7	6.1	6.6	6.9		7.1	7.0	6.7		6.2	5.6	5.1		4.4	3.7	3.0	
construction work	%	3.7	3.9	4.0	4.1		4.2	4.1	3.9		3.7	3.5	3.4		3.3	3.1	3.0	
agricultural	%	8.1	7.2	5.6	3.5		1.3	-0.6	-1.7		-4.0	-5.7	-6.4		-7.1	-8.6	-9.2	
Producer prices																		
industrial	%	5.7	7.2	7.1	6.4	6.9	5.6	4.0	2.7	5.5	2.0	1.1	1.0	4.1	0.3	0.0	-0.3	3.0
construction work	%	3.7	4.2	4.1	4.1	4.1	3.6	2.7	2.3	3.5	2.3	2.4	2.7	3.2	2.6	2.6	2.6	3.0
agricultural	%	8.1	-5.2	-11.4	-15.3	-10.8	-17.6	-15.4	-9.2	-12.5	-11.0	-8.5	-6.7	-10.8	-6.3	-6.0	-5.2	-9.2
Rate of unemployment (end of period)	%	9.5	9.8	9.6	9.4		8.9	8.6	8.6		8.8	8.9	8.8		8.5	8.4	8,9	
Real money income of households	%	2.5				3.9				3.2				2.8				2.8
Nominal wages ^{x/}	%	6.2				5.7				5.5				5.7				5.5
Real wages ^{x/}	%	3.3				4.0				3.8				3.9				3.5
State budget balance (end of period)	bln CZK	-93.7	3.5	-6.1	10.8	8.3	-30.7	-4.5	30.8	3.8	6.5	-0.3	15.8	25.8	-10.6	-15.0	-56.5	-56.3

x) including estimate of small organisations

Source: Czech Statistical Office, Ministry of Finance, Ministry of Labour and Social Affairs, Czech National Bank

I. MACROECONOMIC INDICATORS

(per cent, the corresponding period of previous year = 100)

Indicator	Unit	2004	2005															2005
			Jan.	Feb.	March	1.-3.	April	May	June	1. - 6.	July	Aug.	Sept.	1. - 9.	Oct.	Nov.	Dec.	
Monetary supply M2	bln CZK	1 844.1	1 827.5	1 844.4	1 844.9		1 882.2	1912.1	1913.0		1908.2	1920.5	1919.2		1933.9	1965.6	1992.0	
(increase to December of previous year)	%	4.4	-0.9	0.0	0.0		2.1	3.7	3.7		3.5	4.1	4.1		4.9	6.6	8.0	
Deposits	bln CZK	1 583.2	1 560.8	1 554.9	1 598.9		1 606.1	1621.7	1707.9		1722.0	1724.6	1740.6		1753.6	1750.8	1777.4	
(increase to December of previous year)	%	5.5	-1.4	-1.8	1.0		1.4	2.4	7.9		8.8	8.9	9.9		10.8	10.6	12.3	
households	bln CZK	889.0	897.1	900.5	899.0		919.0	919.5	919.3		921.3	920.5	920.7		924.3	926.9	945.5	
	%	7.3	0.9	1.3	1.1		3.4	3.4	3.4		3.6	3.5	3.6		4.0	4.3	6.4	
enterprises	bln CZK	694.2	663.7	654.4	699.9		687.1	702.3	788.6		800.8	804.2	819.9		829.3	823.9	831.8	
	%	3.3	-4.4	-5.7	0.8		-1.0	1.2	13.6		15.3	15.8	18.1		19.5	18.7	19.8	
Credits (CZK without NPF*)	bln CZK	919.7	924.3	933.8	940.1		938.9	950.1	984.0		989.1	1003.4	1023.7		1048.5	1057.8	1055.8	
(increase to December of previous year)	%	6.6	0.5	1.5	2.2		2.1	3.3	7.0		7.5	9.1	11.3		14.0	15.0	14.8	
households	bln CZK	282.9	285.5	288.9	295.5		302.9	312.0	321.1		327.7	336.6	344.9		354.8	365.2	379.0	
	%	34.4	0.9	2.1	4.4		7.1	10.3	13.5		15.8	19.0	21.9		25.4	29.1	34.0	
enterprises	bln CZK	636.8	638.7	644.9	644.6		636.0	638.1	663.0		661.4	666.8	678.8		693.7	692.6	676.8	
	%	-2.4	0.3	1.3	1.2		-0.1	0.2	4.1		3.9	4.7	6.6		8.9	8.8	6.3	
Balance of payments																		
Current account	mil. USD	-6 511.4				823.0				-447.6				-1729.4				-2675.3
Trade balance	mil. USD	-1 028.7				1 144.2				1 737.8				1681.7				1685.1
Balance of services	mil. USD	487.9				151.9				454.1				719.6				810.6
Balance of incomes	mil. USD	-6 138.8				-990.5				-3 283.5				-4792.8				-5943.0
Financial account	mil. USD	7 146.0				-421.4				3 972.1				5 189.2				5 759.6
Direct investment	mil. USD	3 960.0				1 398.3				7 113.5				8820.4				10135.1
FDI in the Czech Republic	mil. USD	4 974.3				1 442.9				7 208.3				9365.0				10991.2
Portfolio investment	mil. USD	2 310.4				-896.7				-874.2				-2254.5				-3006.7
Long-term capital	mil. USD	2 217.2				-90.2				1 081.6				1529.5				1414.7
Short-term capital	mil. USD	-1 216.8				-882.4				-3 380.1				-2817.3				-2666.5
International reserves of the CNB	bln. USD	28.4	27.8	27.9	27.5		27.8	27.1	30.1		29.9	30.2	29.9		29.6	29.4	29.6	
External debt	bln. USD	45.2			44.5				43.2				45.4				45.8	

Source: Czech National Bank

I. MACROECONOMIC INDICATORS

Structure of registered job applicants (31 December)

	2004		2005		Change 2005-2004	
	Total	% of total	Total	% of total	Total	% of total
Age groups:						
Up to 24 let	115 790	21.4	96 530	18.9	-19 260	-2.5
Including: up to 19 let	32 158	6.0	27 092	5.3	-5 066	-0.7
25-34	134 364	24.8	124 842	24.5	-9 522	-0.3
35-49	170 177	31.4	160 638	31.5	-9 539	0.1
50 and over	121 344	22.4	128 406	25.2	7 062	2.8
Education:						
No education	3 512	0.6	3 251	0.6	-261	0.0
Basic	162 349	30.0	153 249	30.0	-9 100	0.1
Secondary vocational and Secondary (without GCSE*)	240 167	44.3	226 304	44.3	-13 863	0.0
Secondary vocational and Secondary (with GCSE*)	114 850	21.2	107 650	21.1	-7 200	-0.1
Higher	3 044	0.6	2 860	0.6	-184	0.0
University	17 753	3.3	17 102	3.4	-651	0.1
Duration of unemployment:						
Up to 3 month	140 632	26.0	130 938	25.7	-9 694	-0.3
Over 3 months to 6	93 124	17.2	86 618	17.0	-6 506	-0.2
Over 6 months to 12	88 189	16.3	80 056	15.7	-8 133	-0.6
Over 12 months	219 730	40.5	212 804	41.7	-6 926	1.2
Total Czech republic	541 675	100.0	510 416	100.0	-31 259	0.0

*GCSE - the General Certificate of Secondary Education

Unemployment by region

Region	on 31. 12. 2004			on 31. 12. 2005		
	Number of registered job applicants	Number of vacancies	Rate of unem- ployment %	Number of registered job applicants	Number of vacancies	Rate of unem- ployment %
- Praha	26 727	14 598	3.6	24 571	11 119	3.2
- Středočeský	44 012	6 475	6.8	40 751	7 064	6.3
- Jihočeský	23 021	3 239	6.6	23 632	2 636	6.7
- Plzeňský	21 051	4 416	6.7	20 500	3 940	6.4
- Karlovarský	18 726	1 196	10.7	18 017	1 206	10.3
- Ústecký	73 493	2 948	15.8	70 532	2 710	15.4
- Liberecký	20 299	2 547	8.2	18 923	2 425	7.7
- Královéhradecký	22 526	2 075	7.7	21 989	2 731	7.3
- Pardubický	24 399	2 039	8.9	22 782	2 364	8.3
- Vysočina	24 531	1 273	8.8	22 814	1 913	8.2
- Jihomoravský	66 207	3 448	10.7	63 692	5 834	10.2
- Olomoucký	39 591	2 513	11.7	36 180	2 849	10.6
- Zlínský	31 606	1 762	9.5	29 505	2 067	9.3
- Moravskoslezský	105 486	2 674	15.7	96 528	3 306	14.2
Total Czech republic	541 675	51 203	9.5	510 416	52 164	8.9

Source: Ministry of Labour and Social Affairs

I. MACROECONOMIC INDICATORS

Comparison of consumer price development in the Czech Republic, European Union and the USA

(y/y change in %, based on harmonized indices)

	2001	2002	2003	2004	2005												
	aver.	aver.	aver.	aver.	1	2	3	4	5	6	7	8	9	10	11	12	průměr
Czech Rep.	4.6	1.4	-0.1	2.6	1.5	1.4	1.2	1.4	0.9	1.3	1.4	1.4	2.0	2.5	2.2	1.9	1.6
Euro area	2.3	2.3	2.1	2.1	1.9	2.1	2.1	2.1	2.0	2.1	2.2	2.2	2.6	2.5	2.3	2.2	2.2
EU 25	x	x	1.9	2.1	2.0	2.1	2.1	2.1	2.0	2.0	2.1	2.2	2.5	2.4	2.2	2.1	2.2
EU 15	x	2.1	2.0	2.0	1.8	2.0	2.0	2.0	1.9	2.0	2.2	2.3	2.5	2.4	2.3	2.2	2.1
Belgium	2.4	1.6	1.5	1.9	2.0	2.3	2.8	2.4	2.3	2.7	2.7	2.9	3.0	2.2	2.3	2.8	2.5
Ireland	4.0	4.7	4.0	2.3	2.1	2.0	1.9	2.2	2.2	1.9	2.2	2.1	2.8	2.7	2.2	1.9	2.2
Hungary	9.1	5.2	4.7	6.8	6.5	6.2	5.9	5.7	5.3	5.0	4.7	4.4	4.1	3.9	3.7	3.5	3.5
Germany	1.9	1.3	1.0	1.8	1.6	1.8	1.7	1.4	1.6	1.8	1.9	1.9	2.6	2.4	2.3	2.1	1.9
Poland	5.3	1.9	0.7	3.6	3.8	3.7	3.4	3.1	2.2	1.4	1.5	1.8	1.9	1.6	1.1	0.8	2.2
Portugal	4.4	3.7	3.3	2.5	2.0	2.1	2.3	2.0	1.8	0.6	1.9	2.5	2.7	2.6	2.5	2.5	2.1
Austria	2.3	1.7	1.3	2.0	2.4	2.3	2.4	2.3	2.0	2.0	2.1	1.9	2.6	2.0	1.7	1.6	2.1
Finland	2.7	2.0	1.3	0.1	-0.2	0.0	0.9	1.1	0.6	1.0	0.9	1.0	1.1	0.8	1.0	1.1	0.8
Sweden	2.7	2.0	2.3	1.0	0.5	1.2	0.5	0.4	0.2	0.8	0.7	1.1	1.1	0.9	1.2	1.3	0.8
Latvia	2.5	2.0	2.9	6.2	6.7	7.0	6.6	7.1	6.5	6.6	6.3	6.3	7.4	7.7	7.5	7.1	6.9
Greece	3.7	3.9	3.4	3.0	4.2	3.2	2.9	3.3	3.2	3.2	3.9	3.6	3.8	3.7	3.4	3.5	3.5
Slovakia	7.2	3.5	8.5	7.4	3.2	2.7	2.4	2.7	2.4	2.6	2.1	2.1	2.3	3.5	3.6	3.9	2.8
Slovenia	8.6	7.5	5.7	3.6	2.3	2.8	3.3	2.7	2.1	1.7	2.0	1.8	3.2	3.2	2.1	2.4	2.5
Spain	2.8	3.6	3.1	3.1	3.1	3.3	3.4	3.5	3.0	3.2	3.3	3.3	3.8	3.5	3.4	3.7	3.4
USA	2.8	1.6	2.3	2.7	3.0	3.0	3.1	3.5	2.8	2.5	3.2	3.6	4.7	4.3	3.5	3.4	3.4

Source: Eurostat, BLS USA

Note: Harmonized indices of consumer prices (HICP) are comparable with those of consumer prices indices of EU member countries, but they do not replace them. The difference with the national indices is in the structure and the weights of the consumer basket, when in HICP the sales to foreigners are included and hypothetical rents not.

I. MACROECONOMIC INDICATORS

Price index of industrial producers in 1993 to 2005 (y/y change in %)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Industry as a whole	13.1	5.3	7.6	4.8	4.9	4.9	1.0	4.9	2.9	-0.5	-0.3	5.7	3.0
C Products from mining and quarrying	10.1	0.1	2.1	4.2	8.2	6.1	6.5	-3.7	2.0	0.4	0.6	4.1	13.4
CA Coal and lignite, peat	8.7	-2.5	0.6	4.0	7.6	5.6	6.9	-4.6	2.1	-0.3	0.3	5.5	17.3
CB Other mining and quarrying products	20.6	18.4	11.3	6.0	11.5	9.0	4.8	1.5	1.2	2.5	1.6	0.1	1.3
D Manufactured products	14.1	5.4	8.4	4.9	4.8	4.5	0.1	5.7	2.6	-1.3	-0.3	6.0	2.0
DA Food products, beverages and tobacco	18.0	5.6	6.6	8.6	7.7	5.7	-2.9	3.4	6.3	-1.0	-1.1	4.8	-1.1
DB Textiles and textile products	14.1	4.4	6.2	4.4	4.1	5.7	1.8	0.8	2.7	-1.4	-1.0	0.3	-0.8
DC Leather and leather products	5.0	1.4	11.8	4.1	1.9	6.3	2.4	-0.1	3.7	2.0	0.1	-0.3	1.4
DD Wood and wood products	14.8	4.1	14.3	4.8	6.0	6.8	-0.1	0.6	0.0	1.7	0.8	1.1	1.6
DE Pulp, paper, paper products, printing	1.1	3.2	23.0	-1.5	-4.8	5.8	-0.5	11.5	3.8	-1.7	-1.0	0.0	-0.1
DF Coke, refined petroleum products	48.4	-2.3	-0.8	6.2	14.5	-11.1	12.6	50.0	-10.7	-13.4	2.6	27.0	16.4
DG Chemicals, chem. products, man-made fib.	5.6	3.0	16.3	-0.5	4.2	-0.2	0.1	14.9	0.6	-4.5	1.4	6.7	3.2
DH Rubber and plastic products	9.2	5.7	12.2	6.4	3.9	4.9	0.6	3.4	1.0	-1.8	-2.7	-0.2	0.7
DI Other non metallic mineral products	21.5	5.5	6.3	7.4	6.3	7.3	4.7	2.8	4.4	2.5	-0.9	1.0	0.7
DJ Basic metals and fabricated metal prod.	7.6	4.5	9.8	3.1	3.5	8.5	-3.1	2.2	2.5	-2.6	-0.1	18.5	6.8
DK Machinery and equipment n.e.c.	15.4	11.7	6.2	7.5	5.2	4.7	2.1	1.6	1.6	1.7	0.4	1.5	2.8
DL Electrical and optical equipment	16.4	6.4	6.0	3.5	5.1	3.5	2.2	3.0	1.4	-0.3	-0.6	-0.5	-0.9
DM Transport equipment	11.3	7.8	5.9	5.4	1.8	3.3	0.1	1.0	4.9	0.7	-0.3	-0.3	-2.1
DN Other manufactured goods n.e.c.	10.2	13.5	8.1	2.3	2.5	2.9	2.3	4.2	3.9	1.0	3.7	9.5	0.7
E Electrical energy, gas, steam and hot water	4.2	8.4	2.9	3.8	4.2	6.7	5.3	4.2	5.4	4.6	-0.7	3.9	7.2

Source: Czech Statistical Office

I. MACROECONOMIC INDICATORS

Comparison of producers' price development in the Czech Republic and European Union (y/y change in %)

	2001	2002	2003	2004	2005											
	Aver.	Aver.	Aver.	Aver.	1	2	3	4	5	6	7	8	9	10	11	12
Czech Rep.	0.8	-0.7	0.9	7.7	7.1	7.0	6.4	5.6	3.9	2.7	1.9	1.0	0.9	0.3	0.0	-0.4
Euro area	-0.7	1.3	0.9	3.6	3.9	4.2	4.3	4.3	3.5	4.0	4.1	4.0	4.4	4.2	4.2	4.7
EU 25	-0.7	1.4	1.2	4.4	4.8	5.1	5.2	5.3	4.4	4.9	5.2	5.2	5.2	5.0	5.8	6.7
EU 15	-0.9	1.4	1.1	4.2	4.7	5.0	5.2	5.4	4.5	5.0	5.3	5.3	5.4	5.2	6.0	6.9
Belgium	-1.7	2.6	-0.2	6.2	6.7	5.1	4.1	2.9	2.0	1.8	1.0	0.7	0.6	0.0	0.4	1.5
Germany	0.1	0.6	1.8	2.9	3.9	4.2	4.2	4.6	4.1	4.6	4.6	4.6	4.9	4.6	5.0	5.2
Greece	1.3	3.3	2.0	3.0	3.9	4.6	5.2	5.1	3.7	5.7	5.7	6.0	7.3	7.0	7.0	9.1
Spain	-0.9	2.0	1.1	5.0	4.8	4.9	5.1	5.0	4.2	4.4	4.6	4.9	5.4	5.0	4.9	5.2
Ireland	0.5	3.2	-0.7	1.1	1.0	1.5	1.6	1.9	1.6	1.1	2.4	2.3	2.4	2.9	2.9	3.3
Hungary	3.7	3.5	7.6	7.1	10.6	10.0	10.0	10.1	8.8	9.0	7.8	7.4	7.1	6.7	6.8	7.2
Austria	-2.3	0.0	0.3	2.5	2.6	3.3	3.8	4.0	2.9	3.6	3.6	3.3	3.4	3.0	2.5	3.3
Poland	1.6	0.8	2.3	7.9	7.2	6.2	5.5	2.9	1.2	1.3	0.9	0.6	0.4	-0.1	-0.2	0.4
Portugal	0.6	1.3	0.0	4.7	4.2	4.0	4.6	4.4	3.6	3.5	4.1	4.4	4.5	4.1	3.4	4.0
Slovenia	7.5	3.7	2.1	5.0	4.9	4.2	3.9	3.6	2.6	2.4	2.0	2.1	1.9	1.9	1.8	1.8
Slovakia	2.2	2.3	8.7	4.3	2.8	2.1	2.6	3.5	3.9	4.8	5.3	5.6	5.8	5.7	7.4	7.0
Finland	-1.4	0.0	0.3	-0.8	-0.6	0.4	0.8	1.5	1.1	2.2	2.4	2.5	2.7	2.6	2.9	3.2
Sweden	1.2	5.4	-1.1	3.1	3.0	3.5	3.6	3.6	3.0	3.3	3.8	3.8	4.3	3.9	4.4	5.4

Sourcen: Eurostat

II. INDUSTRY

(y-o-y change, the corresponding period of previous year = 100, firms with 20 or more employees)

Indicator		Unit	2005															2005
			Jan.	Feb.	March	1. - 3.	April	May	June	1. - 6.	July	Aug.	Sept.	1. - 9.	Oct.	Nov.	Dec.	
Industrial production index		%	7.2	5.6	0.1	4.0	5.7	4.0	3.7	4.2	7.2	8.6	7.1	5.3	6.3	7.2	7.1	5.7
Sales from industrial activities	curr. pr.	bln CZK	189.7	193.8	214.7	601.6	215.9	217.2	226.2	1 261.3	191.9	202.1	229.7	188.3	230.7	245.4	216.6	2 573.1
		%	13.4	9.2	3.9	9.1	10.1	8.0	8.2	8.8	5.9	8.9	7.7	8.2	7.2	8.6	6.9	8.0
	const. pr.	bln CZK	183.1	187.3	207.8	581.6	210.0	211.9	221.7	1 225.0	187.4	197.2	226.4	183.5	227.5	241.2	212.4	2 515.0
		%	9.4	5.8	1.7	6.0	9.0	7.5	8.5	7.0	6.8	10.3	9.5	7.6	10.0	10.7	8.4	8.1
Average number of employees		th. pers.	1 124	1 134	1 134	1 130	1 135	1 132	1 137	1 129	1 139	1 139	1 132	1 128	1 141	1 148	1 141	1 129
		%	0.9	1.1	0.7	0.8	0.9	0.6	0.7	0.5	0.6	0.3	-0.3	0.1	0.2	0.2	0.2	-0.1
Aver. month. sales per employee	const. pr.	th. CZK	162.5	165.2	183.3	171.5	185.1	187.2	193.9	180.9	164.5	173.2	200.0	180.8	199.3	210.1	186.2	185.6
		%	8.4	4.6	1.0	5.1	8.0	6.9	7.7	6.4	6.1	9.9	9.9	7.5	9.8	10.5	8.2	8.2
Average monthly wage		CZK	17 033	16 301	17 593	16 949	17 582	18 544	18 500	17 588	18 216	18 040	17 893	17 752	18 136	21 457	19 629	18 279
		%	3.5	4.0	4.1	3.7	3.8	5.3	5.0	4.2	3.0	6.8	4.8	4.5	3.8	5.2	3.7	4.6

Source: Czech Statistical Office

II. INDUSTRY (firms with 20 or more employees)

NACE Division	Average number of firms	Sales from indust. activity mill. CZK					Non-domestic sales				
		curr. pr. 2005	const. pr. 2005	y-o-y change		Share total=100	const. pr. 2005	y-o-y change		Sh. *) cur. p. total=100	Share **) const. pr
				curr. pr.	const. pr.			curr. pr..	const. pr.		
10 mining of coal and lignite.extraction of peat	20	49713	38469	9.1	-6.9	1.9	3379	43.1	22.3	0.1	8.8
CA Mining and quarr. of energy producing	24	54366	42216	10.6	-5.4	2.1	3732	37	17.6	0.1	8.8
CB Mining and quarr. exc. energy produc. mater.	69	11682	11124	6.1	6.8	0.5	2178	23.0	33.8	0.1	19.6
C Mining and quarrying	93	66048	53340	9.8	-3.1	2.6	5910	32.9	23.1	0.2	11.1
15 food products and beverages	1005	226399	211599	-2.6	-1.4	8.8	35762	14.7	16.7	1.4	16.9
16 tobacco products	4	11894	11557	-15.7	-18.3	0.5	2830	30.1	6.1	0.1	24.5
DA Food products, beverages and tobacco	1009	238293	223156	-3.3	-2.5	9.3	38592	15.8	15.8	1.5	17.3
17 textiles	319	44764	46464	-6.3	-4.7	1.7	29875	-7.0	-5.0	1.2	64.3
18 wearing apparel, dressing, dyeing of fur	305	11826	12248	1.1	3.3	0.5	10263	12.3	18.1	0.4	83.8
DB Textiles and textile products	624	56590	58712	-4.9	-3.1	2.2	40138	-3.0	0.0	1.6	68.4
DC Leather and leather products	108	4457	4129	3.2	3.6	0.2	1959	-11.9	-10.0	0.1	47.4
DD Wood and wood products	385	43065	43956	6.7	6.5	1.7	25002	13.3	15.3	1.0	56.9
21 pulp, paper and pap. products	131	48440	56115	1.3	5.3	1.9	33271	6.5	12.1	1.3	59.3
22 publishing, printing and reprod. of rec. media	296	45242	42389	9.5	7.3	1.8	6069	14.3	12.9	0.2	14.3
DE Pulp, paper and pap. products, publis. printing	426	93682	98504	5.1	6.2	3.6	39339	7.8	12.2	1.6	39.9
DF Coke, refined petroleum	6	69331	57884	16.1	-1.3	2.7	9148	18.7	-3.0	0.4	15.8
DG Chemic., chem. prod. and man-made fibres	207	138163	136396	8.3	5.7	5.4	77667	16.2	14.5	3.1	56.9
DH Rubber and plastic products	578	148539	158822	11.4	12.6	5.8	82902	8.1	11.4	3.3	52.2
DI Other non-metallic mineral products	389	116024	114791	1.9	3.1	4.5	52217	0.6	5.9	2.1	45.5
27 basic metals	159	189781	144984	-0.9	-6.4	7.4	51062	10.5	6.6	2.0	35.2
28 fabric. metal prod., except machin. and equip.	1288	159231	139110	15.0	9.9	6.2	77600	10.8	9.9	3.1	55.8
DJ Basic metals and fabricated metal products	1447	349013	284094	5.7	0.9	13.6	128662	10.7	8.6	5.1	45.3
DK Machinery and equipment n.e.c.	1056	194023	188889	15.0	14.1	7.5	124489	15.6	17.9	4.9	65.9
30 office machinery and computers	30	90208	107013	11.1	26.1	3.5	63887	-26.9	-18.2	2.5	59.7
31 electrical machinery and apparatus n.e.c.	497	137841	145655	3.7	4.0	5.4	105405	3.2	6.0	4.2	72.4
32 radio, television and communic. equip .t. appar.	125	76404	88810	-8.4	-3.4	3.0	90675	-10.0	-4.2	3.6	102.1
33 medic., precis. and optic. instr., watch., clocks	182	30171	31866	10.7	13.5	1.2	23563	21.2	22.0	0.9	73.9
DL Electrical and optical equipment	833	334625	373344	3.1	8.2	13.0	283531	-8.7	-2.7	11.3	61.4
34 motor vehicles, trailers and semi-trailers	242	421978	461951	18.3	24.2	16.4	367903	12.4	19.0	15.2	79.6
35 other transport equipment	88	24511	22328	2.6	1.2	1.0	13820	13.7	13.2	2.0	61.9
DM Transport equipment	330	446489	484279	17.3	22.9	17.4	381722	12.4	18.8	15.2	78.8
36 furniture, manufacturing n.e.c.	520	67198	67208	8.8	9.0	2.6	46742	17.9	21.6	1.9	69.5
37 recycling	51	11407	6210	-4.3	0.1	0.4	2372	0.7	4.8	0.1	38.2
DN Manufacturing n.e.c.	572	78605	73418	6.7	8.2	3.1	49114	16.0	20.6	2.0	66.9
D Manufacturing	7969	2310898	2300375	7.4	8.4	89.8	1334483	6.8	10.2	53.1	58.0
40 electricity, gas, steam and hot water supply	197	177047	146898	16.4	8.2	6.9	7286	-5.2	-4.2	0.3	5.0
41 collection, purification and distribution of water	72	19141	14353	0.2	-4.0	0.7	22	1.7	-2.6	0.0	0.2
E Electricity, gas and water supply	269	196188	161251	14.6	7.0	7.6	7308	-5.1	-4.2	0.3	4.5
Total industry	8331	2573134	2514966	8.0	8.1	100.0	1347701	6.8	10.2	53.6	53.6

*) Share on sales from industrial activity total

**) Share on sales from industrial activity of section, subsection, division. Figure for division 32 was verified by CZSO.

Source: Czech Statistical Office

II. INDUSTRY (firms with 20 or more employees)

NACE Division	Avg. No. of employees			Avg. month. receipts per empl.			Average monthly wages		
	Phys. per. 2005	y-o-y change	Share total=100	CZK 2005	y-o-y. change	Level ind.=100	CZK 2005	y-o-y change	Level ind.=100
10 mining of coal and lignite.extraction of peat	34742	-4.5	3.1	92272	-2.6	49.7	22941	6.5	125.5
CA Mining and quarr. of energy producing	38462	-4.3	3.4	91466	-1.1	49.3	22807	6.4	124.8
CB Mining and quarr. exc. energy produc. mater.	5547	-3.2	0.5	167119	10.4	90.0	20206	2.6	110.5
C Mining and quarrying	44009	-4.2	3.9	101001	1.2	54.4	22479	5.9	123.0
15 food products and beverages	108645	-2.0	9.6	162301	0.6	87.4	15902	3.3	87.0
16 tobacco products	1434	-13.2	0.1	671713	-5.9	361.8	41983	7.5	229.7
DA Food products, beverages and tobacco	110079	-2.1	9.8	168936	-0.3	91.0	16242	3.2	88.9
17 textiles	43328	-7.1	3.8	89366	2.6	48.1	13016	4.9	71.2
18 wearing apparel, dressing, dyeing of fur	23438	-10.6	2.1	43547	15.5	23.5	10351	1.3	56.6
DB Textiles and textile products	66766	-8.4	5.9	73281	5.7	39.5	12081	4.0	66.1
DC Leather and leather products	8615	-6.5	0.8	39939	10.9	21.5	11496	5.2	62.9
DD Wood and wood products	26443	2.0	2.3	138526	4.4	74.6	14712	3.6	80.5
21 pulp, paper and pap. products	17609	0.1	1.6	265552	5.2	143.0	18135	1.7	99.2
22 publishing, printing and reprod. of rec. media	23015	1.4	2.0	153485	5.8	82.7	21848	7.0	119.5
DE Pulp, paper and pap. products, publis. printing	40624	0.8	3.6	202062	5.3	108.8	20239	4.9	110.7
DF Coke, refined petroleum	2960	0.5	0.3	1629795	-1.8	877.9	26148	5.4	143.1
DG Chemic., chem. prod. and man-made fibres	37591	0.7	3.3	302368	5.0	162.9	21441	6.3	117.3
DH Rubber and plastic products	66902	7.3	5.9	197830	5.0	106.6	17477	2.9	95.6
DI Other non-metallic mineral products	65215	-0.1	5.8	146684	3.2	79.0	18672	3.9	102.2
27 basic metals	55156	-6.5	4.9	219053	0.2	118.0	19920	2.0	109.0
28 fabric. metal prod., except machin. and equip.	103287	6.1	9.1	112236	3.6	60.5	17573	4.2	96.1
DJ Basic metals and fabricated metal products	158443	1.3	14.0	149420	-0.4	80.5	18390	2.9	100.6
DK Machinery and equipment n.e.c.	131727	0.7	11.7	119495	13.4	64.4	18627	5.5	101.9
30 office machinery and computers	7362	-10.6	0.7	1211250	41.0	652.5	17701	10.2	96.8
31 electrical machinery and apparatus n.e.c.	86830	0.5	7.7	139789	3.5	75.3	16913	2.1	92.5
32 radio, television and communic. equip .t. appar.	26684	0.1	2.4	277351	-3.5	149.4	19357	7.8	105.9
33 medic., precis. and optic. instr., watch., clocks	22036	6.1	2.0	120506	6.9	64.9	18019	6.3	98.6
DL Electrical and optical equipment	142913	0.6	12.7	217699	7.6	117.3	17580	4.3	96.2
34 motor vehicles, trailers and semi-trailers	100209	8.7	8.9	384155	14.2	206.9	21396	5.1	117.1
35 other transport equipment	18853	-1.0	1.7	98697	2.3	53.2	19799	5.8	108.3
DM Transport equipment	119062	7.0	10.5	338955	14.8	182.6	21143	5.3	115.7
36 furniture, manufacturing n.e.c.	49690	-2.4	4.4	112713	11.7	60.7	14232	4.4	77.9
37 recycling	3347	0.1	0.3	154590	0.0	83.3	17596	-1.4	96.3
DN Manufacturing n.e.c.	53037	-2.2	4.7	115356	10.6	62.1	14444	4.0	79.0
D Manufacturing	1030376	0.7	91.3	186047	7.7	100.2	17798	4.6	97.4
40 electricity, gas, steam and hot water supply	34638	-14.7	3.1	353409	26.9	190.4	26699	7.7	146.1
41 collection, purification and distribution of water	19938	-2.4	1.8	59991	-1.7	32.3	19240	5.8	105.3
E Electricity, gas and water supply	54577	-10.6	4.8	246216	19.7	132.6	23974	6.2	131.2
Total industry	1128962	-0.1	100.0	185640	8.2	100.0	18279	4.6	100.0

Source: Czech Statistical Office

III. CONSTRUCTION

1. Output, employment, labor productivity (CZK in current pr., indices in % in compar. pr.)

Indicator	Unit	2004	2005															2005
			Jan.	Feb.	March	1.-3.	April	May	June	1. - 6.	July	Aug.	Sept.	1. - 9.	Oct.	Nov.	Dec.	
Construction output	mill. CZK %	394 305 9.7	17 226 14.2	21 917 3.8	26 865 -16.0	66 008 -3.2	33 785 -29.5	37 294 26.0	40 822 19.0	177 909 -1.2	37 545 6.1	41 119 6.7	43 853 9.5	300 426 2.2	44 761 13.8	45 918 6.6	31 632 8.6	422 737 4.2
Construction output in firms with 20 or more employees by contractors of which:	mill. CZK %	278 207 8.9	11 726 15.7	13 690 5.8	15 821 -15.3	41 237 -1.2	20 959 -30.1	24 743 27.3	27 130 19.4	114 070 0.1	25 305 6.4	29 050 6.9	30 748 9.0	199 174 3.1	32 777 14.2	33 515 6.6	25 206 7.8	290 672 5.1
in CR	mill. CZK %	274 071 8.4	11 608 15.9	13 461 5.8	15 649 -15.2	40 717 -1.1	20 704 -30.3	24 401 27.1	26 737 20.1	112 559 0.2	24 795 6.0	28 641 7.5	30 119 8.0	196 114 3.0	32 344 13.9	32 970 6.1	24 598 7.0	286 026 4.8
including: - repairs and maintenance	mill. CZK %	36 088 -1.3	1 158 7.6	1 151 -12.9	1 593 -24.4	3 902 -13.3	2 339 -41.8	2 634 5.9	3 043 -3.3	11 918 -15.8	2 890 -9.1	3 478 -8.6	3 648 -2.9	21 934 -12.0	4 101 7.4	4 270 4.3	3 694 13.8	33 999 -5.8
- new construction. reconstruction modernization	mill. CZK %	234 697 10.0	10 249 16.5	12 146 8.7	13 861 -13.7	36 257 0.6	18 095 -28.5	21 402 30.4	23 350 24.1	99 104 2.6	21 595 8.5	24 763 9.8	26 084 9.4	171 546 5.3	27 839 14.6	28 306 6.7	20 577 6.2	248 268 6.5
- other works	mill. CZK %	3 286 18.0	201 46.0	164 -25.2	195 -31.1	558 -12.4	270 -28.7	365 23.4	344 20.2	1 537 -3.8	310 7.3	400 38.4	387 37.0	2 634 7.1	404 40.0	394 -11.6	327 -7.2	3 759 6.0
abroad	mill. CZK %	4 136 49.5	113 -1.9	229 -0.2	172 -25.2	520 -9.7	255 -5.3	342 40.3	393 -11.0	1 511 -1.3	511 22.1	409 -17.8	629 68.8	3 060 8.5	433 41.6	545 40.0	608 42.9	4 646 17.9
Number of employees in firms with 20 or more employees	thous. pers. %	158.0 3.4	150.7 4.0	151.3 4.2	153.7 3.6	151.9 3.9	159.3 4.1	161.9 4.5	163.8 4.2	156.8 4.1	167.4 5.0	167.9 4.9	166.8 5.1	160.3 4.4	167.2 5.7	167.0 6.4	162.6 6.8	161.6 4.9
Labour productivity in firms with 20 or more employees	curr. pr. com. pr.	thous. CZK %	1761.0 5.3	76.9 11.2	89.7 1.5	102.3 -18.3	271.5 -5.0	131.6 -32.8	152.8 21.8	165.6 14.6	727.6 -3.8	151.2 1.4	173.0 1.9	183.4 3.7	1242.4 -1.2	196.1 8.0	200.7 0.2	1798.4 1.0
Average monthly wages in firms with 20 or more employees	curr. pr. %	CZK %	18 125 6.2	16 046 1.8	16 576 1.0	17 699 4.7	16 779 2.6	18 267 3.4	18 432 6.7	19 483 3.2	17 786 3.5	18 999 2.0	19 078 6.8	19 429 6.6	18 267 4.1	19 318 4.0	22 957 5.3	20 189 -1.3
Construction output in firms up to 19 employees	curr. pr. %	mill. CZK %	116 098 11.4	5 500 13.8	8 227 2.3	11 044 -16.5	24 771 -6.2	12 827 -27.6	12 551 26.6	13 692 20.1	63 839 -2.4	12 239 7.2	12 069 7.6	13 105 12.3	101 252 0.9	11 984 16.5	12 403 10.2	6 426 11.9
Permits granted in CR total number	pc	153622	8 713	8 056	10 505	27 274	10 879	13038	13673	64 864	12393	14397	14296	105950	13301	12045	11645	142941
estimated value of construction project	bill. CZK	315.1	22.3	21.3	29.1	72.8	25.1	29.1	30.3	157.3	25.9	36.9	28.7	248.8	23.4	30.4	23.2	325.8

Source: Czech Statistical Office

III. CONSTRUCTION

2. Dwelling construction (index in % - the corresponding period of previous year = 100)

	Unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005			
												1. Q.	1.-2. Q.	1.-3. Q.	1.-4. Q.
Dwellings started	number	16 548	21 481	31 370	33 255	31 313	29 502	27 599	32 383	35 326	39 037	8 645	17 687	29 967	40 381
	%	-50.9	29.8	46.0	6.0	-5.8	-5.8	-6.5	17.3	9.1	7.0	6.1	-8.7	3.0	3.4
completed	number	12 662	14 037	15 904	21 245	22 299	23 074	22 960	25 598	25 999	32 268	6 452	12 520	20 995	32 863
	%	-30	10.9	13.3	33.6	5.0	3.5	-0.5	11.5	1.6	19.0	5.8	3.6	5.3	1.8
Dwellings under construction	number	66 172	73 452	88 371	100 302	109 451	114 868	117 864	126 054	135 428	146 801	148 885	152 114	156 001	155 202
	%	6.5	11.0	20.3	13.5	9.1	4.9	2.6	6.9	7.4	5.5	5.5	3.9	5.0	5.7

Source: Czech Statistical Office

IV. EXTERNAL TRADE

1. Territorial structure

	Turnover		Y-o-y change	Exports		Y-o-y change	Imports		Y-o-y change	Balance	
	1-12/2005			1-12/2005			1-12/2005			1-12/2004	1-12/2005
	mill. CZK	share in %	in %	mill. CZK	share in %	in %	mill. CZK	share in %	in %	mill. CZK	mill. CZK
Total external trade	3 710 084	100.0	6.9	1 875 220	100.0	8.9	1 834 864	100.0	4.9	-26 438	40 356
Developed market economies	3 170 254	85.4	5.3	1 694 269	90.4	7.4	1 475 985	80.4	3.1	145 811	218 284
<i>EU</i>	2 878 963	77.6	5.2	1 578 546	84.2	6.6	1 300 417	70.9	3.5	224 416	278 129
<i>EFTA</i>	74 140	2.0	11.8	31 184	1.7	11.8	42 956	2.3	11.8	-10 538	-11 772
<i>Other developed market economies</i>	217 151	5.9	5.1	84 539	4.5	22.0	132 612	7.2	-3.4	-68 067	-48 073
Developing countries	169 301	4.6	2.5	66 647	3.6	22.7	102 654	5.6	-7.4	-56 486	-36 007
European transition economies	60 766	1.6	21.3	46 088	2.5	18.4	14 678	0.8	31.5	27 761	31 410
CIS countries	201 271	5.4	42.5	58 725	3.1	39.5	142 546	7.8	43.8	-57 050	-83 821
Other ⁿ⁾	104 977	2.8	3.5	8 155	0.4	1.5	96 822	5.3	3.7	-85 348	-88 667
Unspecified	3 515	0.1	-15.4	1 336	0.1	-11.8	2 179	0.1	-17.5	-1 126	-843
External trade with OECD countries	3 142 181	84.7	5.3	1 667 797	88.9	7.3	1 474 384	80.4	103.1	124 902	193 413

^{x)} China, North Korea, Cuba, Laos, Mongolia, Vietnam

Source: Czech Statistical Office

IV. EXTERNAL TRADE

2. Commodity structure

SITC	Exports		Y-o-y change	Imports		Y-o-y change	Balance	
	1-12/2005			1-12/2005			1-12/2004	1-12/2005
	mill. CZK	share in %	in %	mill. CZK	share in %	in %	mill. CZK	mill. CZK
Total external trade	1 875 220	100.0	8.9	1 834 864	100.0	4.9	-26 438	40 356
including:								
0 Food and live animals	60 408	3.2	27.4	81 733	4.5	13.3	-24 720	-21 325
1 Beverages and tobacco	10 594	0.6	18.7	11 741	0.6	10.1	-1 744	-1 147
2 Crude materials, inedible, exept fuels	47 192	2.5	-0.3	51 548	2.8	-2.6	-5 601	-4 356
3 Mineral fuels, lubricants and related materials	53 137	3.1	134.7	121 887	7.0	113.1	-68 354	-68 750
4 Animal and vegetable oils, fats. waxes	1 761	0.1	68.8	3 645	0.2	-12.4	-3 119	-1 884
5 Chemicals and related products	118 411	6.3	13.9	203 436	11.1	4.4	-90 882	-85 025
6 Manufactured goods classified chiefly by material	408 546	21.8	5.1	374 422	20.4	3.8	27 783	34 124
7 Machinery and transport equipment	955 849	51.0	9.1	738 893	40.3	-0.1	136 191	216 956
8 Miscellaneous manufactured articles	214 484	11.4	8.1	198 535	10.8	4.1	7 816	15 949
9 Unclassified	494	0.0	-44.3	1 002	0.1	19.1	46	-508

Source: Czech Statistical Office

IV. EXTERNAL TRADE

3. External trade CR with some countries

Indicator	Turnover			Exports			Imports			Balance	
	1 -12/2005 mil. CZK	Share %	y-o-y change in %	1 -12/2005 mill. CZK	Share %	y-o-y change in %	1 -12/2005 mill. CZK	Share %	y-o-y change in %	1 -12/2004 mill. CZK	1 -12/2005 mill. CZK
Germany	1 175 316	31.7	-0.2	626 064	33.4	0.5	549 252	29.9	-0.9	68 763	76 812
Slovakia	262 150	7.1	9.5	162 658	8.7	11.8	99 492	5.4	5.9	51 627	63 166
Poland	193 692	5.2	11.6	102 744	5.5	13.6	90 948	5.0	9.4	7 313	11 796
France	182 723	4.9	12.4	99 481	5.3	25.1	83 242	4.5	0.2	-3 553	16 239
Austria	175 488	4.7	1.0	102 848	5.5	-0.8	72 640	4.0	3.7	33 640	30 208
Italy	166 920	4.5	-0.4	79 760	4.3	6.8	87 160	4.8	-6.2	-18 257	-7 400
The Netherland	144 170	3.9	17.7	70 285	3.7	-5.0	73 885	4.0	52.2	25 453	-3 600
Russia	138 054	3.7	45.2	33 616	1.8	39.1	104 438	5.7	47.3	-46 736	-70 822
Great Britain	133 079	3.6	0.8	86 991	4.6	7.1	46 088	2.5	-9.2	30 511	40 903
China	101 408	2.7	3.5	7 155	0.4	2.4	94 253	5.1	3.6	-84 002	-87 098
USA	96 851	2.6	3.7	48 861	2.6	25.4	47 990	2.6	-11.9	-15 499	871
Hungary	90 439	2.4	8.4	50 250	2.7	7.5	40 189	2.2	9.6	10 098	10 061
Belgium	86 905	2.3	10.3	50 363	2.7	13.4	36 542	2.0	6.4	10 087	13 821
Spain	83 558	2.3	14.0	47 633	2.5	25.3	35 925	2.0	1.9	2 745	11 708
Japan	65 271	1.8	0.4	7 876	0.4	34.8	57 395	3.1	-3.0	-53 322	-49 519
Norway	20 890	0.6	23.3	6 779	0.4	14.1	14 111	0.8	28.3	-5 056	-7 332
Taiwan	18 420	0.5	2.3	1 227	0.1	27.7	17 193	0.9	0.9	-16 077	-15 966
Malaysia	11 608	0.3	-26.9	1 394	0.1	30.8	10 214	0.6	-31.0	-13 737	-8 820

Source: Czech Statistical Office

V. DOMESTIC TRADE

		2004	2005															2005
			1.	2.	3.	1. - 3.	4.	5.	6.	1. - 6.	7.	8.	9.	1.-9.	10.	11.	12.	
Retail sale total (NACE 50. 52. 55)	a	4.9	6.7	0.5	3.0	3.3	1.5	6.4	4.2	3.7	2.1	7.3	5.7	4.2	4.5	4.0	2.1	4.0
	b	2.4	6.5	0.1	3.0	3.1	1.0	6.4	3.9	3.5	1.0	6.2	3.3	3.4	2.9	3.1	1.8	3.2
Retail sale including motor vehicles (NACE 50. 52)	a	4.7	7.0	0.6	3.4	3.6	2.2	7.5	4.5	4.2	2.2	7.9	6.2	4.6	4.8	4.1	2.3	4.3
	b	2.5	7.3	0.7	3.9	3.9	2.2	7.6	4.4	4.3	1.2	6.9	3.8	4.2	3.2	3.4	2.1	3.8
Sale and repairs of motor vehicles and fuel (NACE 50)	a	7.1	14.8	-0.1	2.9	5.1	6.5	13.2	8.5	7.5	7.0	13.4	10.6	8.5	8.7	3.5	1.5	7.4
	b	1.5	14.5	-0.2	3.8	5.5	5.0	12.4	7.0	6.9	1.9	7.8	1.5	5.7	2.2	-0.7	-2.0	4.1
Sale and repairs of motor vehicles (NACE 50.1 - 50.4)	a	0.4	9.4	-2.6	2.7	2.7	4.1	12.9	8.5	5.9	-1.1	4.8	2.4	4.6	5.0	1.3	0.4	3.9
	b	0.9	10.7	-1.3	5.0	4.4	6.3	14.4	10.1	7.6	-0.1	5.6	2.4	5.9	4.6	0.8	0.0	4.7
Fuel (NACE 50.5)	a	19.4	23.4	4.2	3.2	9.4	10.8	13.7	8.6	10.2	18.2	24.1	21.3	14.6	13.8	7.3	3.5	12.8
	b	2.6	20.2	1.7	1.6	7.2	2.5	9.0	1.3	5.6	4.8	11.1	0.2	5.5	-1.5	-3.4	-5.7	3.0
Retail sale (NACE 52)	a	3.6	3.9	0.9	3.6	2.9	0.0	4.8	2.4	2.6	-0.3	5.1	3.9	2.7	2.7	4.5	2.6	2.9
	b	3.0	4.4	1.1	3.9	3.2	0.8	5.4	3.0	3.1	0.8	6.4	4.9	3.4	3.7	5.4	3.7	3.7

Note: a = y-o-y index in current prices

b = y-o-y index in constant prices

Source: Czech Statistical Office

VI. FINANCIAL CONDITIONS

1. Pre-tax profit or loss (million CZK)

(firms with 100 and more employees)

NACE Division	Year		y-o-y change	Share total =100	
	2004	2005		2004	2005
10 mining of coal and lignite.extraction of peat	9 927	14 012	4085	3.77	5.34
CA Mining and quarr. of energy produc. mater.	10 516	15 698	5183	3.99	5.98
CB Mining and quarr. exc. energy prod. mater.	869	450	-420	0.33	0.17
C Mining and quarrying	11 385	16 148	4763	4.32	6.15
DA Food products, beverages and tobacco	18 061	20 036	1975	6.86	7.64
17 textiles	1 897	1 204	-693	0.72	0.46
18 wearing apparel, dressing, dyeing of fur	154	-118	-272	0.06	-0.04
DB Textiles and textile products	2 051	1 086	-965	0.78	0.41
DC Leather and leather products	-51	-21	30	-0.02	-0.01
DD Wood and wood products	2 020	1 666	-353	0.77	0.64
21 pulp, paper and pap. products	3 531	3 753	223	1.34	1.43
22 publis.. printing and reprod. of rec. media	2 028	2 301	274	0.77	0.88
DE Pulp, paper and pap. prod., publis. printing	5 558	6 055	496	2.11	2.31
DF Coke, refined petroleum	1 984	1 252	-731	0.75	0.48
DG Chemic., chem. prod. and man-made fibres	10 360	11 106	746	3.94	4.23
DH Rubber and plastic products	9 351	7 532	-1820	3.55	2.87
DI Other non-metallic mineral products	12 822	12 648	-174	4.87	4.82
27 basic metals	19 024	17 390	-1634	7.23	6.63
28 fabric. metal prod., exc. machin. and equip.	4 281	5 508	1226	1.63	2.10
DJ Basic metals and fabricated metal products	23 305	22 898	-408	8.85	8.73
DK Machinery and equipment n.e.c.	4 651	6 301	1650	1.77	2.40
30 office machinery and computers	-271	-3	268	-0.10	0.00
31 electrical machinery and apparatus n.e.c.	8 482	6 944	-1537	3.22	2.65
32 radio, telev. and commun. equip. t. apparat.	3 137	544	-2593	1.19	0.21
33 med., precis. and opt .instr., watch., clocks	1 430	2 596	1166	0.54	0.99
DL Electrical and optical equipment	12 778	10 082	-2696	4.85	3.84
34 motor vehicles, trailers and semi-trailers	19 399	19 523	124	7.37	7.44
35 other transport equipment	1 478	254	-1224	0.56	0.10
DM Manufacture of transport equipment	20 877	19 778	-1100	7.93	7.54
36 furniture, manufacturing n.e.c.	4 122	4 449	327	1.57	1.70
37 recycling	443	40	-403	0.17	0.02
DN Manufacturing n.e.c.	4 564	4 489	-76	1.73	1.71
D Manufacturing	128 332	124 907	-3425	48.75	47.60
40 electricity, gas, steam and hot water supply	37 799	42 655	4857	14.36	16.264
41 collection, purific. and distrib. of water	2 255	2 327	72	0.86	0.89
E Electricity, gas and water supply	40 054	44 982	4928	15.22	17.14
Total industry	179 772	186 038	6266	68.29	70.90
F Construction	9 753	11 331	1578	3.70	4.32
G Wholesale and retail trade, repair of motor vehicles, motorcycles	18 919	16 386	-2534	7.19	6.24
H Hotels and restaurants	2 998	1 595	-1403	1.14	0.61
I Transport. storage and communication	36 379	31 158	-5221	13.82	11.87
K Real estate. renting and business activities	6 154	8 273	2119	2.34	3.15
A+B Agriculture. hunting and forestry	2 931	2 560	-371	1.11	0.98
L-Q Others	6 342	5 053	-1289	2.41	1.93
Total CR	263 248	262 394	-854	100.00	100.00

Source: Czech Statistical Office

VI. FINANCIAL CONDITIONS

2. The amount of profit and number of enterprises (firms with 100 and more employees)

NACE	Enterprises with profit							
	am. in mill. CZK		y-o-y change	number of employees		y-o-y change	number of firms	
	2004	2005		2004	2005		2004	2005
10 mining of coal and lignite, extraction of peat	9 948	14 015	4 067	35 497	34 266	-1 231	11	12
CA Mining and quarrying of energy producing mater.	10 858	16 076	5 218	35 984	34 813	-1 171	13	14
CB Mining and quarrying except energy prod. mater.	869	636	-233	3 531	2 821	-710	19	15
C Mining and quarrying	11 727	16 711	4 984	39 515	37 634	-1 881	32	28
DA Food products, beverages and tobacco	20 017	20 946	930	61 778	65 402	3 624	224	216
17 textiles	2 947	2 633	-314	22 424	20 294	-2 130	70	59
18 wearing apparel, dressing, dyeing of fur	319	142	-177	10 648	8 380	-2 268	31	22
DB Textiles and textile products	3 266	2 776	-490	33 072	28 674	-4 398	101	81
DC Leather and leather products	75	88	13	2 763	2 355	-408	16	13
DD Wood and wood products	2 178	1 877	-301	10 672	11 050	378	47	52
21 pulp, paper and pap. products	3 923	3 904	-19	10 771	11 865	1 094	32	35
22 publish., printing and reproduct, of record. media	2 422	2 473	52	10 671	11 630	959	38	44
DE Pulp, paper and pap. products, publish. printing	6 345	6 377	32	21 442	23 494	2 053	70	79
DF Coke, refined petroleum	1 988	1 440	-548	2 237	2 048	-189	3	3
DG Chemic., chem. prod. and man-made fibres	11 041	12 353	1 312	27 795	28 090	294	59	55
DH Rubber and plastic products	9 728	8 058	-1 670	40 638	40 458	-180	128	122
DI Other non-metallic mineral products	13 679	14 081	402	35 584	42 521	6 937	112	115
27 basic metals	19 578	18 500	-1 078	47 451	46 665	-785	72	76
28 fabric. metal prod., except machin. and eq.	5 647	6 584	936	44 167	53 211	9 044	188	215
DJ Basic metals and fabricated metal products	25 225	25 083	-142	91 618	99 877	8 258	260	291
DK Machinery and equipment n.e.c.	8 099	9 981	1 882	77 396	79 336	1 940	260	260
30 office machinery and computers	320	904	584	4 683	5 899	1 217	7	12
31 electrical machinery and apparatus n.e.c.	8 882	7 897	-985	65 413	59 706	-5 707	162	140
32 radio, televis. and communic. equip. t. app.	3 486	4 237	750	18 397	14 125	-4 272	37	37
33 medic., precis. and optic. instr., watches, clocks	1 669	2 630	961	12 721	14 709	1 987	35	37
DL Electrical and optical equipment	14 357	15 668	1 310	101 214	94 439	-6 775	241	225
34 motor vehicles, trailers and semi-trailers	22 384	25 442	3 058	79 484	83 960	4 476	99	96
35 other transport equipment	2 116	1 885	-231	11 255	10 677	-578	27	29
DM Transport equipment	24 500	27 327	2 828	90 738	94 636	3 898	126	125
36 furniture, manufacturing n.e.c.	4 578	4 989	410	23 244	22 686	-558	83	72
37 recycling	297	927	630	1213	1654	441	7	10
DN Manufacturing n.e.c.	5 034	5 068	35	24 548	23 586	-962	91	78
D Manufacturing	145 531	151 123	5 592	621 495	635 965	14 470	1737	1716
40 electricity, gas, steam and hot water supply	38 038	43 503	5 465	34 052	30 583	-3 469	55	53
41 collection, purification and distribution of water	2 257	2 336	78	18 722	18 604	-118	47	47
E Electricity, gas and water supply	40 295	45 839	5 543	52 773	49 186	-3 587	102	101
Total industry	197 554	213 673	16 120	713 783	722 785	9 002	1871	1844
F Construction	10 331	12 182	1 851	65 517	68 613	3 097	228	238

Source: CZSO, MIT

VI. FINANCIAL CONDITIONS

3. The amount of loss and number of enterprises (firms with 100 and more employees)

NACE	Enterprises with loss							
	am. in mill. CZK		y-o-y change	number of employees		y-o-y change	number of firms	
	2004	2005		2004	2005		2004	2005
10 mining of coal and lignite, extraction of peat	x	x		x	x		2	1
CA Mining and quarrying of energy producing mater.	-342	x		3 973	x		3	2
CB Mining and quarrying except energy prod. mater.	0	-186	-186	0	605	605	0	3
C Mining and quarrying	-342	-563	-221	3 973	3 803	-170	3	5
DA Food products, beverages and tobacco	-1 956	-911	1 045	19 843	13 087	-6 756	58	60
17 textiles	-1 050	-1 430	-379	13 676	14 090	413	39	49
18 wearing apparel, dressing, dyeing of fur	-165	-260	-96	4 718	5 304	586	17	19
DB Textiles and textile products	-1 215	-1 690	-475	18 394	19 394	1 000	56	68
DC Leather and leather products	-126	-109	17	2 774	2 757	-17	13	15
DD Wood and wood products	-158	-210	-52	2 793	3 320	527	14	16
21 pulp, paper and pap. products	-393	-151	242	3 346	2 180	-1 166	11	10
22 publish., printing and reproduct, of record. media	-394	-172	222	2 253	1 955	-298	11	10
DE Pulp, paper and pap. products, publish. printing	-787	-323	464	5 599	4 135	-1 464	22	20
DF Coke, refined petroleum	x	x		x	x		1	1
DG Chemic., chem. prod. and man-made fibres	-681	-1 247	-566	3 736	3 133	-604	16	17
DH Rubber and plastic products	-377	-527	-150	3 825	6 870	3 044	17	29
DI Other non-metallic mineral products	-857	-1 433	-576	18 310	11 961	-6 349	34	36
27 basic metals	-554	-1 110	-556	7 433	6 657	-775	22	21
28 fabric. metal prod., except machin. and eq.	-1 366	-1 076	290	12 678	10 536	-2 143	57	60
DJ Basic metals and fabricated metal products	-1 920	-2 186	-266	20 111	17 193	-2 918	79	82
DK Machinery and equipment n.e.c.	-3 448	-3 679	-232	18 532	18 903	371	69	74
30 office machinery and computers	-590	-906	-316	2 504	2 140	-364	4	6
31 electrical machinery and apparatus n.e.c.	-401	-953	-552	8 181	14 257	6 076	25	48
32 radio, televis. and communic. equip. t. app.	-349	-3 693	-3 344	4 911	8 909	3 999	9	15
33 medic., precis. and optic. instr., watches, clocks	-239	-34	205	2 903	1 813	-1 090	10	6
DL Electrical and optical equipment	-1 579	-5 586	-4 007	18 499	27 119	8 620	48	75
34 motor vehicles, trailers and semi-trailers	-2 984	-5 919	-2 935	7 621	11 198	3 578	20	25
35 other transport equipment	-638	-1 631	-993	5 374	6 199	826	16	16
DM Transport equipment	-3 622	-7 550	-3 927	12 994	17 398	4 403	36	42
36 furniture, manufacturing n.e.c.	-456	-539	-83	9 398	9 166	-231	32	40
37 recycling	x	-40		x	574		1	3
DN Manufacturing n.e.c.	-469	-579	-110	9 505	9 740	236	33	43
D Manufacturing	-17 199	-26 216	-9 017	155 642	155 889	247	496	577
40 electricity, gas, steam and hot water supply	-239	-847	-608	1 081	1 216	135	8	9
41 collection, purification and distribution of water	x	x		x	x		1	1
E Electricity, gas and water supply	-241	-856	-615	1 205	1 346	141	9	10
Total industry	-17 782	-27 636	-9 854	160 820	161 037	218	508	591
F Construction	-578	-851	-273	9 218	7 187	-2 031	45	40

x- individual data (1 or 2 firms)

Source: CZSO, MIT

VI. FINANCIAL CONDITIONS

4. Book value added (firms with 100 and more employees)

NACE	Book value added mill. CZK		y-o-y change %	Share total = 100		Book value added per empl. in CZK		y-o-y change %
	2004	2005		2004	2005	2004	2005	
10 mining of coal and lignite, extraction of peat	28 542	30 921	8.3	3.05	3.14	788 965	900 051	14.1
CA Mining and quarrying of energy producing mater.	30 178	33 380	10.6	3.23	3.38	755 258	878 180	16.3
CB Mining and quarrying except energy prod. mater.	3 105	2 873	-7.4	0.33	0.29	879 247	838 650	-4.6
C Mining and quarrying	33 282	36 253	8.9	3.56	3.68	765 325	874 911	14.3
DA Food products, beverages and tobacco	53 322	57 149	7.2	5.71	5.80	653 291	728 105	11.5
17 textiles	12 412	11 709	-5.7	1.33	1.19	343 812	340 545	-1.0
18 wearing apparel, dressing, dyeing of fur	3 377	2 841	-15.9	0.36	0.29	219 762	207 613	-5.5
DB Textiles and textile products	15 789	14 550	-7.8	1.69	1.48	306 776	302 701	-1.3
DC Leather and leather products	1 089	1 076	-1.2	0.12	0.11	196 701	210 611	7.1
DD Wood and wood products	7 092	7 533	6.2	0.76	0.76	526 703	524 166	-0.5
21 pulp, paper and pap. products	10 467	10 784	3.0	1.12	1.09	741 461	767 837	3.6
22 publish., printing and reproduct. of record. media	8 662	9 612	11.0	0.93	0.97	670 203	707 606	5.6
DE Pulp, paper and pap. products, publish. printing	19 129	20 397	6.6	2.05	2.07	707 404	738 224	4.4
DF Coke, refined petroleum	5 777	5 571	-3.6	0.62	0.56	1 950 349	1 903 501	-2.4
DG Chemic., chem. prod. and man-made fibres	32 445	32 223	-0.7	3.47	3.27	1 028 956	1 032 036	0.3
DH Rubber and plastic products	27 295	30 111	10.3	2.92	3.05	613 871	636 238	3.6
DI Other non-metallic mineral products	40 371	40 770	1.0	4.32	4.13	749 089	748 330	-0.1
27 basic metals	45 082	41 470	-8.0	4.82	4.21	821 417	777 712	-5.3
28 fabric. metal prod., except machin. and eq.	25 983	30 355	16.8	2.78	3.08	457 072	476 182	4.2
DJ Basic metals and fabricated metal products	71 065	71 825	1.1	7.60	7.28	636 045	613 523	-3.5
DK Machinery and equipment n.e.c.	42 729	45 020	5.4	4.57	4.57	445 425	458 274	2.9
30 office machinery and computers	3 686	1 727	-53.2	0.39	0.18	512 971	214 806	-58.1
31 electrical machinery and apparatus n.e.c.	34 125	35 102	2.9	3.65	3.56	463 696	474 592	2.3
32 radio, televis. and communic. equip. t. app.	14 957	11 421	-23.6	1.60	1.16	641 711	495 825	-22.7
33 medic., precis. and optic. instr., watches, clocks	7 080	8 913	25.9	0.76	0.90	453 149	539 506	19.1
DL Electrical and optical equipment	59 849	57 164	-4.5	6.40	5.80	499 937	470 257	-5.9
34 motor vehicles, trailers and semi-trailers	72 268	79 757	10.4	7.73	8.09	829 669	838 153	1.0
35 other transport equipment	7 966	7 376	-7.4	0.85	0.75	479 034	437 091	-8.8
DM Transport equipment	80 233	87 133	8.6	8.59	8.84	773 462	777 740	0.6
36 furniture, manufacturing n.e.c.	13 548	14 849	9.6	1.45	1.51	415 060	466 187	12.3
37 recycling	1 045	723	-30.8	0.11	0.07	740 486	490 295	-33.8
DN Manufacturing n.e.c.	14 593	15 572	6.7	1.56	1.58	428 544	467 253	9.0
D Manufacturing	470 778	486 094	3.3	50.38	49.29	605 785	613 868	1.3
40 electricity, gas, steam and hot water supply	78 723	91 557	16.3	8.42	9.28	2 240 748	2 879 305	28.5
41 collection, purification and distribution of water	11 158	12 074	8.2	1.19	1.22	592 065	644 516	8.9
E Electricity, gas and water supply	89 881	103 631	15.3	9.62	10.51	1 665 138	2 050 809	23.2
Total industry	593 941	625 979	5.4	63.56	63.48	679 098	708 262	4.3
F Construction	39 840	42 667	7.1	4.26	4.33	533 088	562 887	5.6
G Whol. and retail tr., rep. of mot. vehic., motor.	78 070	83 355	6.8	8.35	8.45	540 937	537 613	-0.6
H Hotels and restaurants	9 901	9 773	-1.3	1.06	0.99	479 698	458 907	-4.3
I Transport, storage and communication	130 196	131 656	1.1	13.93	13.35	612 087	639 893	4.5
K Real estate, renting and business activities	38 952	49 703	27.6	4.17	5.04	435 729	518 441	19.0
A+B Agriculture, hunting and forestry	18 132	17 174	-5.3	1.94	1.74	313 038	318 169	1.6
L - Q Others	25 461	25 860	1.6	2.72	2.62	473 696	460 095	-2.9
Total - non financial sphere	934 492	986 166	5.5	100.00	100.00	611 549	637 155	4.2

Source: CZSO, MIT

VI. FINANCIAL CONDITIONS

6. Pre-tax profit or loss in industry and construction by institutional sectors (firms with 100 or more employees)

NACE Division	Pre-tax profit or loss (million CZK)							
	T o t a l		11001 - public sector		11002 - private sector		11003 - foreign sector	
	year 2005	y-o-y change	year 2005	y-o-y change	year 2005	y-o-y change	year 2005	y-o-y change
10 mining of coal and lignite, extraction of peat	14 012	4 085	2 536	-271	10 112	4 133	1 364	222
CA Mining and quarrying of energy producing mater.	15 698	5 183	2 162	-323	12 172	5 284	1 364	222
CB Mining and quarrying except energy producing mater.	450	-420	0	0	173	-236	277	-183
C Mining and quarrying	16 148	4 763	2 162	-323	12 345	5 048	1 641	39
DA Food products, beverages and tobacco	20 036	1 975	451	33	4 296	1 412	15 272	517
17 textiles	1 204	-693	0		667	-797	537	104
18 wearing apparel, dressing, dyeing of fur	-118	-272	0		-172	-110	53	-60
DB Textiles and textile products	1 086	-965	0		495	-906	590	44
DC Leather and leather products	-21	30	0		5	16	-25	14
DD Wood and wood products	1 666	-353	0		288	-259	1 367	-105
21 pulp, paper and pap. products	3 753	223	x		352	-30	3 404	262
22 publishing, printing and reprod. of recorded media	2 301	274	x		810	328	1 210	-115
DE Ppulp, paper and pap. products, publis. printing	6 055	496	x		1 161	299	4 614	147
DF Coke, refined petroleum	1 252	-731	x		1 440	-210	0	0
DG Chemic., chem. prod. and man-made fibres	11 106	746	x		1 671	-41	5 930	39
DH Rubber and plastic products	7 532	-1 820	x		1 151	-632	6 380	-1 181
DI Other non-metallic mineral products	12 648	-174	x		3 684	178	8 890	-435
27 basic metals	17 390	-1 634	x		7 629	958	9 762	-2 599
28 fabric. metal prod., except machinery and equip.	5 508	1 226	x		1 804	-58	3 556	1 227
DJ Basic metals and fabricated metal products	22 898	-408	x		9 433	900	13 318	-1 372
DK Machinery and equipment n.e.c.	6 301	1 650	102	-23	3 068	342	3 112	1 303
30 office machinery and computers	-3	268	0		x		-10	262
31 electrical machinery and apparatus n.e.c.	6 944	-1 537	0		2 543	379	4 401	-1 916
32 of radio, televis. and communic. equip. t. apparat.	544	-2 593	0		398	199	146	-2 792
33 medic., precis. and optic. instr., watches, clocks	2 596	1 166	0		544	226	2 052	940
DL Electrical and optical equipment	10 082	-2 696	0		3 493	810	6 589	-3 506
34 motor vehicles, trailers and semi-trailers	19 523	124	0		1 463	647	18 061	-523
35 other transport equipment	254	-1 224	-1 289	-1 572	993	621	550	-272
DM Transport equipment	19 778	-1 100	-1 289	-1 572	2 456	1 268	18 611	-796
36 furniture, manufacturing n.e.c.	4 449	327	0		871	63	3 542	268
37 recycling	40	-403	0		55	-286	x	
DN Manufacturing n.e.c.	4 489	-76	0		926	-223	3 527	151
D Manufacturing	124 907	-3 425	2 906	-1 206	33 567	2 953	88 175	-5 182
40 electricity, gas, steam and hot water supply	42 655	4 857	22 147	6 230	14 621	820	5 888	-2 193
41 collection, purification and distribution of water	2 327	72	145	-20	647	38	1 535	53
E Electricity, gas and water supply	44 982	4 928	22 292	6 210	15 268	858	7 422	-2 140
Total industry	186 038	6 266	27 360	4 680	61 181	8 859	97 238	-7 283
F Construction	11 331	1 578	226	56	9 127	1 666	1 989	-76

x individual data (1 or 2 firms)

Source: CZSO, MIT

VI. FINANCIAL CONDITIONS

7. Book value added in industry and construction by institutional sectors (firms with 100 or more employees)

NACE Division	Book value added (million CZK)							
	T o t a l		11001 - public sector		11002 - private sector		11003 - foreign sector	
	year 2005	y-o-y change %	year 2005	y-o-y change %	year 2005	y-o-y change %	year 2005	y-o-y change %
10 mining of coal and lignite, extraction of peat	30 921	8.3	7 282	-15.0	20 733	25.7	2 906	-16.4
CA Mining and quarrying of energy producing mater.	33 380	10.6	7 007	-14.0	23 467	26.5	2 906	-16.4
CB Mining and quarrying except energy producing mater.	2 873	-7.4	0		1 818	0.4	1 055	-18.4
C Mining and quarrying	36 253	8.9	7 007	-14.0	25 285	24.1	3 961	-17.0
DA Food products, beverages and tobacco	57 149	7.2	1 269	8.7	23 473	11.0	32 317	4.4
17 textiles	11 709	-5.7	0		7 347	-10.5	4 362	3.8
18 wearing apparel, dressing, dyeing of fur	2 841	-15.9	0		1 982	-15.1	837	-9.2
DB Textiles and textile products	14 550	-7.8	0		9 329	-11.5	5 199	1.5
DC Leather and leather products	1 076	-1.2	0		628	-6.1	448	6.8
DD Wood and wood products	7 533	6.2	0		2 957	-1.0	4 526	10.3
21 pulp, paper and pap. products	10 784	3.0	x		2 676	4.2	8 033	2.9
22 publishing, printing and reprod. of recorded media	9 612	11.0	x		3 140	12.3	5 862	9.9
DE Ppulp, paper and pap. products, publis. printing	20 397	6.6	x		5 816	8.4	13 895	5.8
DF Coke, refined petroleum	5 571	-3.6	x		4 982	3.0	0	
DG Chemic., chem. prod. and man-made fibres	32 223	-0.7	x		8 389	-3.6	16 229	3.9
DH Rubber and plastic products	30 111	10.3	0		8 188	0.3	21 924	14.7
DI Other non-metallic mineral products	40 770	1.0	x		15 411	6.6	25 045	-2.2
27 basic metals	41 470	-8.0	x		23 733	15.5	17 704	-27.7
28 fabric. metal prod., except machinery and equip.	30 355	16.8	x		13 666	17.4	16 310	16.6
DJ Basic metals and fabricated metal products	71 825	1.1	x		37 399	16.2	34 014	-11.6
DK Machinery and equipment n.e.c.	45 020	5.4	807	-22.6	23 299	-4.5	20 793	20.8
30 office machinery and computers	1 727	-53.2	0		x		1 602	-55.9
31 electrical machinery and apparatus n.e.c.	35 102	2.9	0		10 078	7.3	25 024	1.2
32 of radio, televis. and communic. equip. t. apparat.	11 421	-23.6	0		1 700	16.3	9 721	-28.0
33 medic., precis. and optic. instr., watches, clocks	8 913	25.9	0		2 275	7.9	6 638	33.5
DL Electrical and optical equipment	57 164	-4.5	0		14 177	8.9	42 986	-8.2
34 motor vehicles, trailers and semi-trailers	79 757	10.4	0		5 761	14.6	73 995	10.1
35 other transport equipment	7 376	-7.4	681	-61.1	3 886	21.0	2 809	-6.4
DM Transport equipment	87 133	8.6	681	-61.1	9 647	17.1	76 805	9.4
36 furniture, manufacturing n.e.c.	14 849	9.6	0		6 412	-2.6	8 291	21.6
37 recycling	723	-30.8	0		619	-23.3	x	
DN Manufacturing n.e.c.	15 572	6.7	0		7 031	-4.9	8 394	19.0
D Manufacturing	486 094	3.3	11 959	-14.4	170 728	5.3	302 575	3.0
40 electricity, gas, steam and hot water supply	91 557	16.3	45 037	36.8	30 285	7.5	16 235	-8.0
41 collection, purification and distribution of water	12 074	8.2	1 656	47.9	5 079	2.3	5 339	5.2
E Electricity, gas and water supply	103 631	15.3	46 693	37.2	35 364	6.8	21 574	-5.0
Total industry	625 979	5.4	65 660	16.9	231 377	7.3	328 110	2.1
F Construction	42 667	7.1	1 626	1.4	32 293	10.1	8 731	-0.6

x individual data (1 or 2 firms)

Source: CZSO, MIT

VI. FINANCIAL CONDITIONS

8. Book value added per employee in industry and construction by institutional sectors (firms with 100 or more employees)

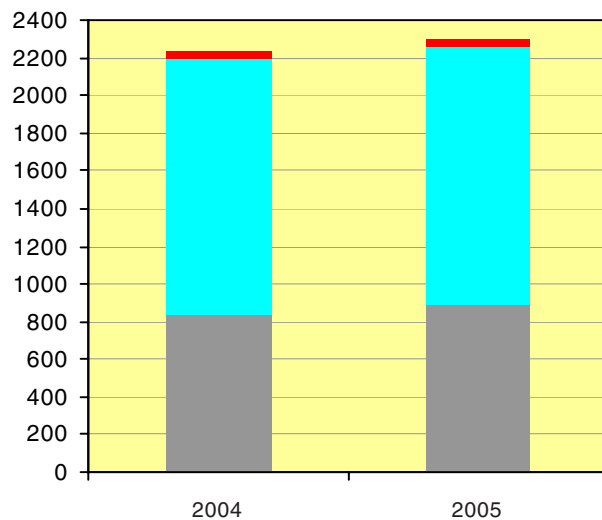
NACE Division	Book value added per employee/year (CZK)							
	T o t a l		11001 - public sector		11002 - private sector		11003 - foreign sector	
	year 2005	y-o-y change %	year 2005	y-o-y change %	year 2005	y-o-y change %	year 2005	y-o-y change %
10 mining of coal and lignite, extraction of peat	900 051	14.1	954 675	2.5	920 850	17.4	689 950	17.8
CA Mining and quarrying of energy producing mater.	878 180	16.3	652 650	0.1	1 017 557	18.0	689 950	17.8
CB Mining and quarrying except energy producing mater.	838 650	-4.6	0		736 533	3.0	1 101 848	-15.0
C Mining and quarrying	874 911	14.3	652 650	0.1	990 385	17.0	766 259	11.4
DA Food products, beverages and tobacco	728 105	11.5	991 573	25.4	428 623	16.3	1 465 985	6.4
17 textiles	340 545	-1.0	0		307 587	-3.8	415 548	3.1
18 wearing apparel, dressing. dyeing of fur	207 613	-5.5	0		193 106	-4.8	253 001	2.3
DB Textiles and textile products	302 701	-1.3	0		273 178	-3.7	376 598	4.1
DC Leather and leather products	210 611	7.1	0		204 352	3.1	220 048	13.1
DD Wood and wood products	524 166	-0.5	0		359 438	-3.2	750 848	-0.9
21 pulp, paper and pap. products	767 837	3.6	x		378 586	3.9	1 198 347	3.9
22 publishing, printing and reprod. of recorded media	707 606	5.6	x		547 887	9.6	813 429	3.6
DE Pulp, paper and pap. products, publis. printing	738 224	4.4	x		454 394	7.0	998 920	3.1
DF Coke, refined petroleum	1 903 501	-2.4	x		2 433 427	3.7	0	
DG Chemic., chem. prod. and man-made fibres	1 032 036	0.3	x		572 927	-0.7	1 234 760	0.9
DH Rubber and plastic products	636 238	3.6	0		395 758	-2.6	823 002	4.6
DI Other non-metallic mineral products	748 330	-0.1	x		487 548	6.7	1 145 712	-6.3
27 basic metals	777 712	-5.3	x		623 378	15.8	1 171 594	-20.9
28 fabric. metal prod., except machinery and equip.	476 182	4.2	x		392 579	3.0	579 335	5.4
DJ Basic metals and fabricated metal products	613 523	-3.5	x		513 143	9.6	786 204	-14.2
DK Machinery and equipment n.e.c.	458 274	2.9	319 183	-23.8	409 133	-3.3	541 206	11.6
30 office machinery and computers	214 806	-58.1	0		x		207 619	-60.1
31 electrical machinery and apparatus n.e.c.	474 592	2.3	0		436 806	12.9	491 722	-2.0
32 of radio, televis. and communic. equip. t. apparat.	495 825	-22.7	0		356 489	16.5	532 195	-26.9
33 medic., precis. and optic. instr., watches, clocks	539 506	19.1	0		374 335	2.1	635 646	26.2
DL Electrical and optical equipment	470 257	-5.9	0		414 068	11.4	492 290	-11.0
34 motor vehicles, trailers and semi-trailers	838 153	1.0	0		397 671	12.1	917 261	-0.6
35 other transport equipment	437 091	-8.8	255 192	-50.7	455 720	18.1	494 621	-18.8
DM Transport equipment	777 740	0.6	255 192	-50.7	419 179	14.4	889 463	-1.5
36 furniture, manufacturing n.e.c.	466 187	12.3	0		322 418	8.4	729 140	6.4
37 recycling	490 295	-33.8	0		491 462	-26.9	x	
DN Manufacturing n.e.c.	467 253	9.0	0		332 486	4.9	724 591	4.3
D Manufacturing	613 868	1.3	932 731	-5.2	437 501	6.5	783 055	-2.5
40 electricity, gas, steam and hot water supply	2 879 305	28.5	5 446 296	41.3	2 210 047	27.2	1 652 303	-2.7
41 collection, purification and distribution of water	644 516	8.9	448 851	47.9	634 675	2.2	758 203	7.0
E Electricity, gas and water supply	2 050 809	23.2	3 904 564	40.3	1 629 268	19.0	1 279 018	-1.2
Total industry	708 262	4.3	1 848 667	28.2	528 898	8.7	803 325	-2.4
F Construction	562 887	5.6	457 750	6.5	548 707	8.1	657 084	-3.3

* individual data (1 or 2 firms)

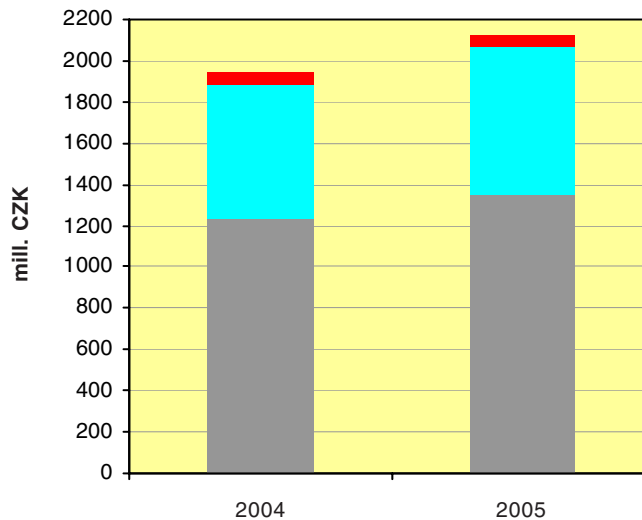
Source: CZSO, MIT

**Manufacturing Industry by Institutional Sectors
(Firms with 100 or more employees)**

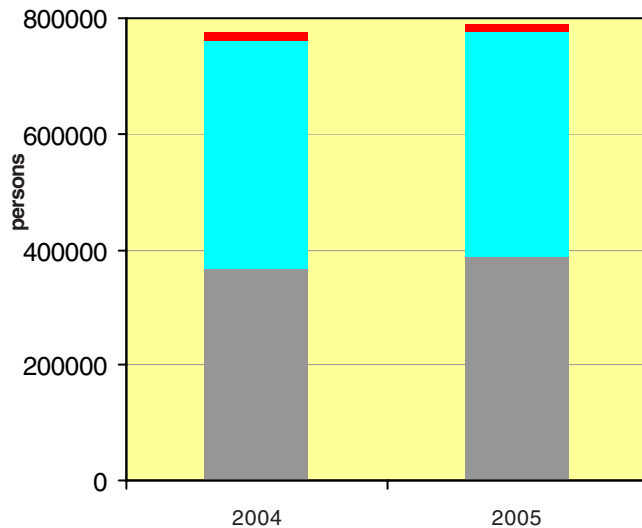
Number of Active Units



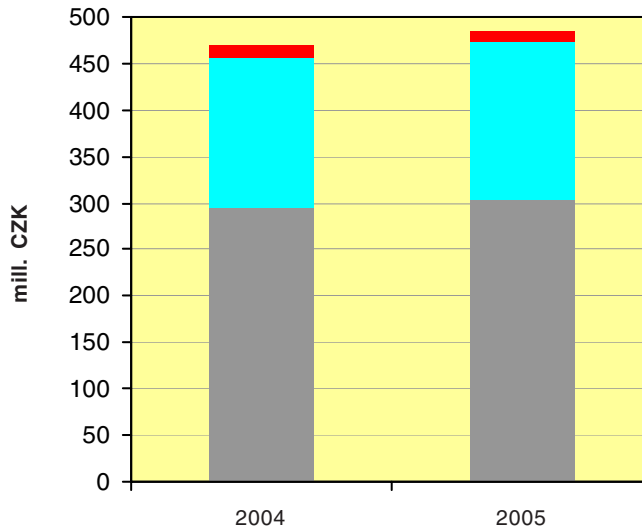
Outputs



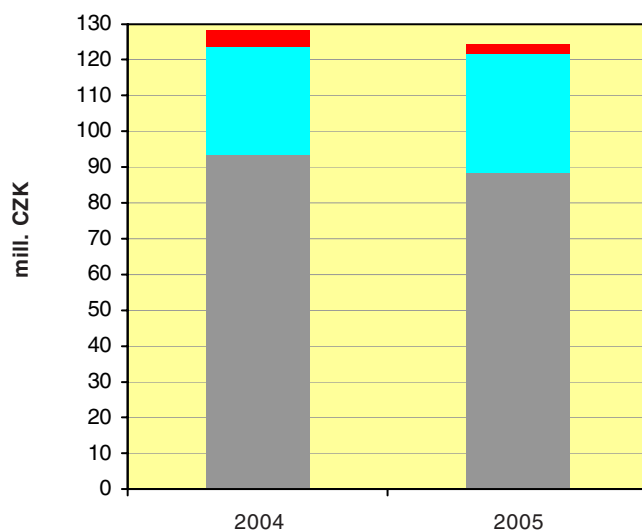
Average Number of Employees



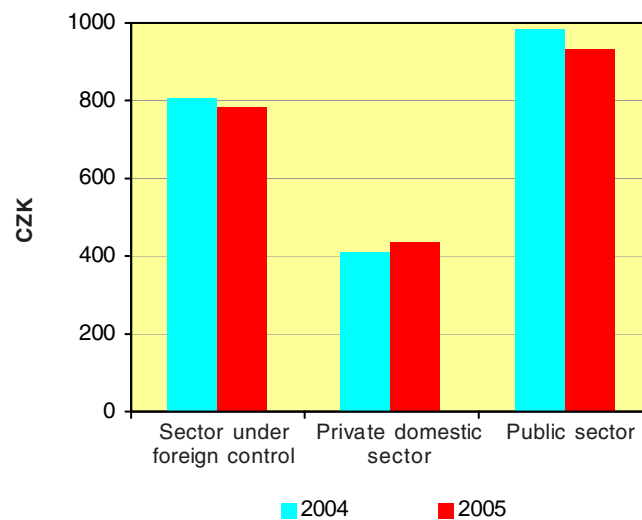
Value Added



Profit before Tax



Value Added per Employee



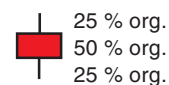
■ 2004 ■ 2005

■ Sector under foreign control

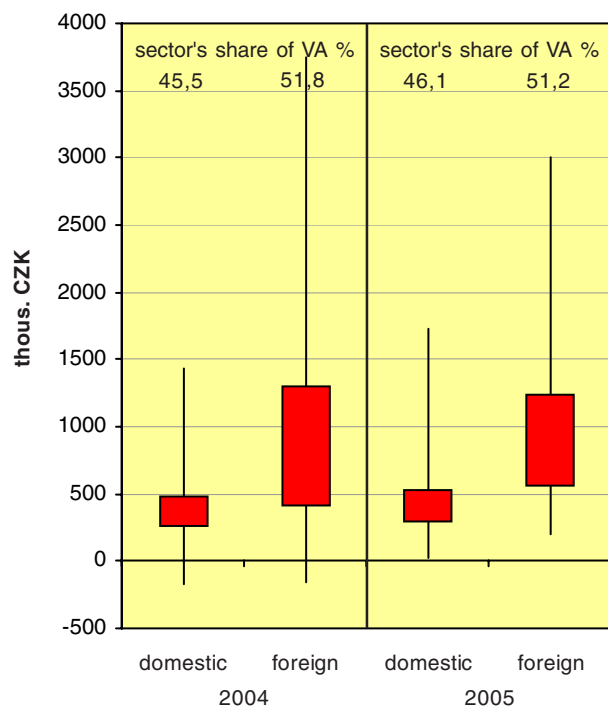
■ Private domestic sector

■ Public sector

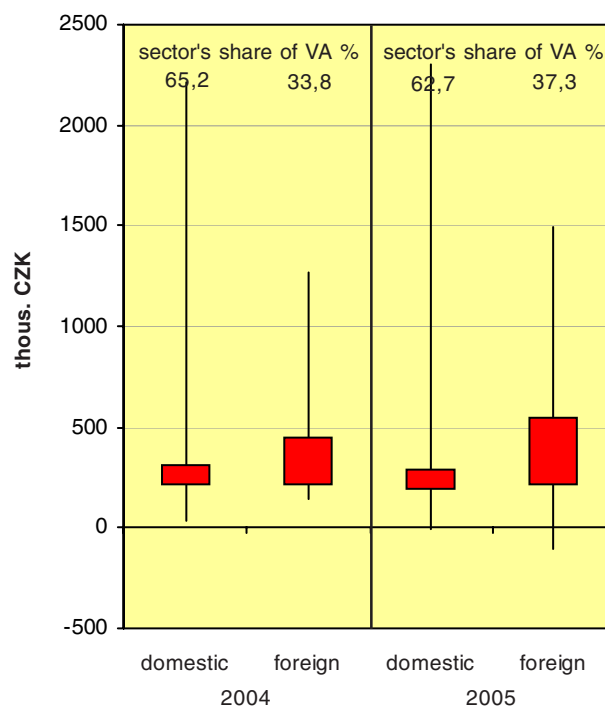
Comparison of Quartile Distribution of Enterprises in Domestic and Foreign Sector According to Value Added per Employee in Manufacturing Industry (firms with 100 and more employees)



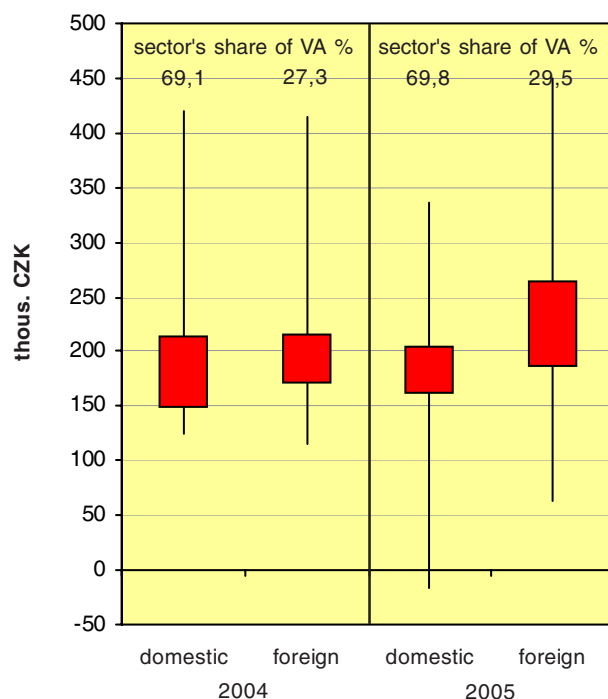
food, beverages, tobacco (15)



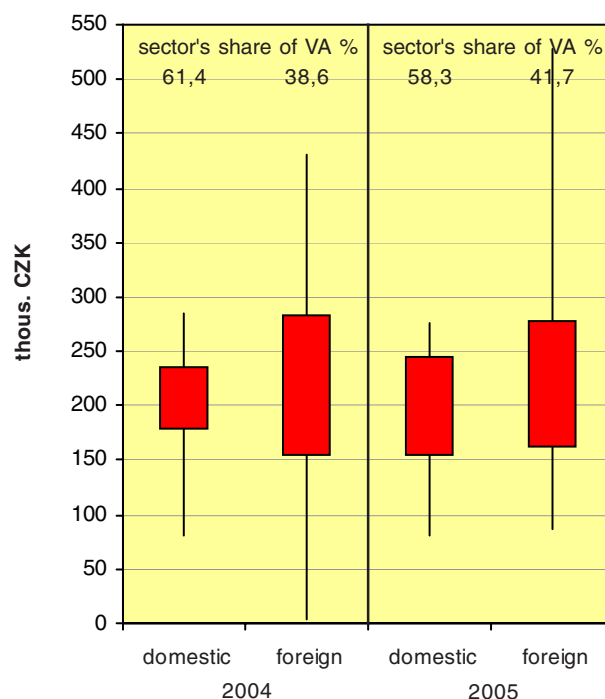
textile (17)



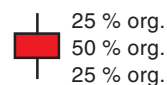
wearing, apparel, dressing (18)



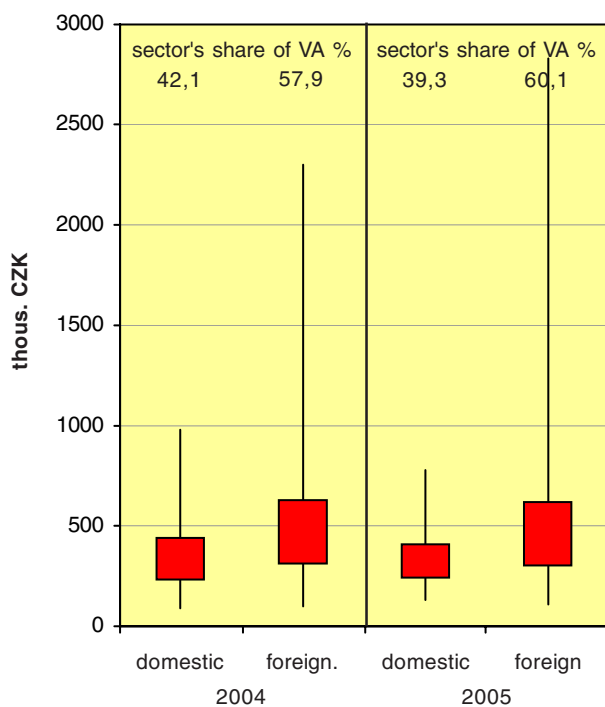
leather products (19)



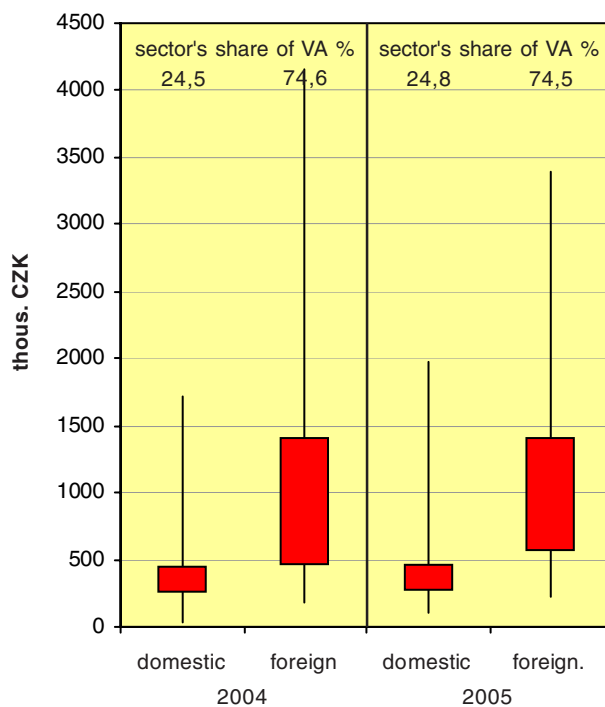
Comparison of Quartile Distribution of Enterprises in Domestic and Foreign Sector According to Value Added per Employee in Manufacturing Industry (firms with 100 and more employees)



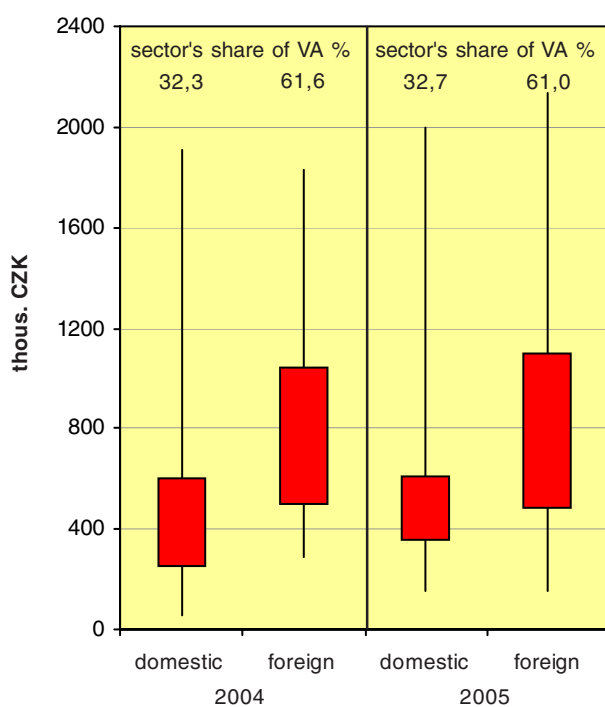
wood products (20)



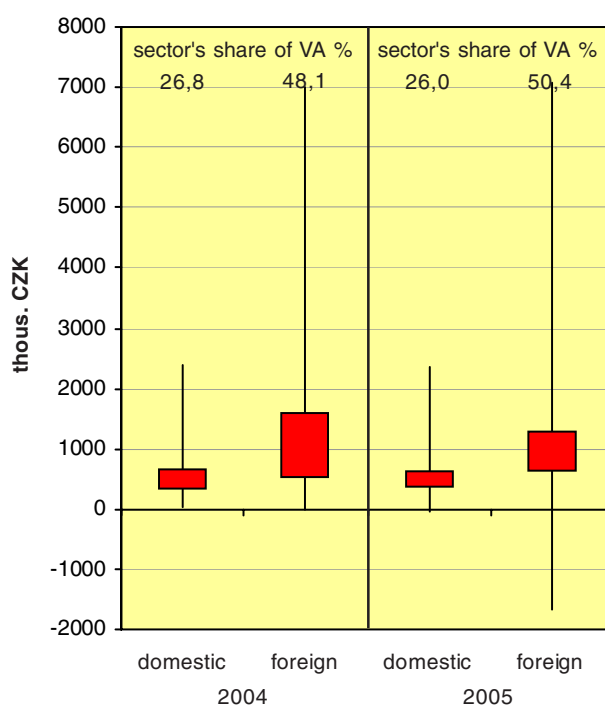
paper products (21)



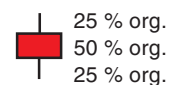
publishing, printing (22)



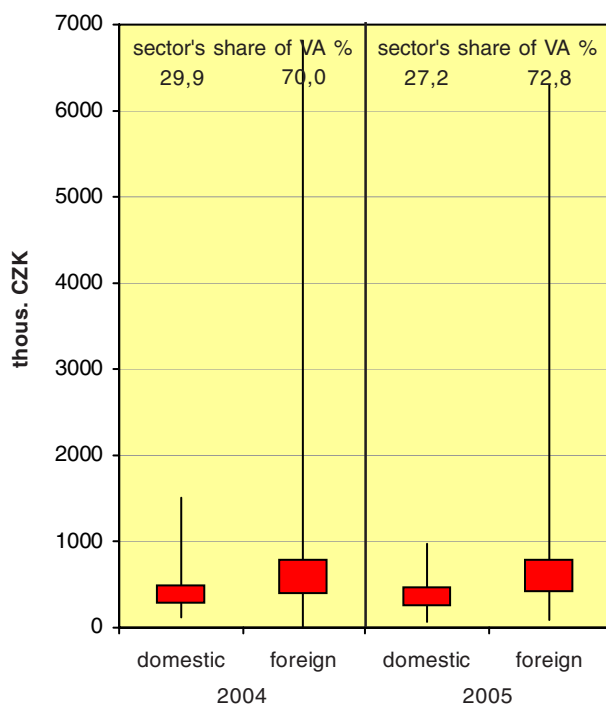
chem. products, man-made fibres (24)



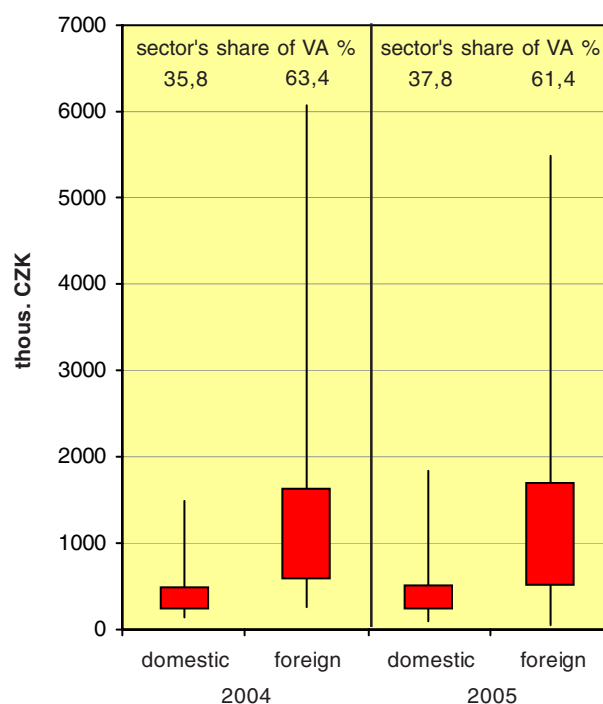
Comparison of Quartile Distribution of Enterprises in Domestic and Foreign Sector According to Value Added per Employee in Manufacturing Industry (firms with 100 and more employees)



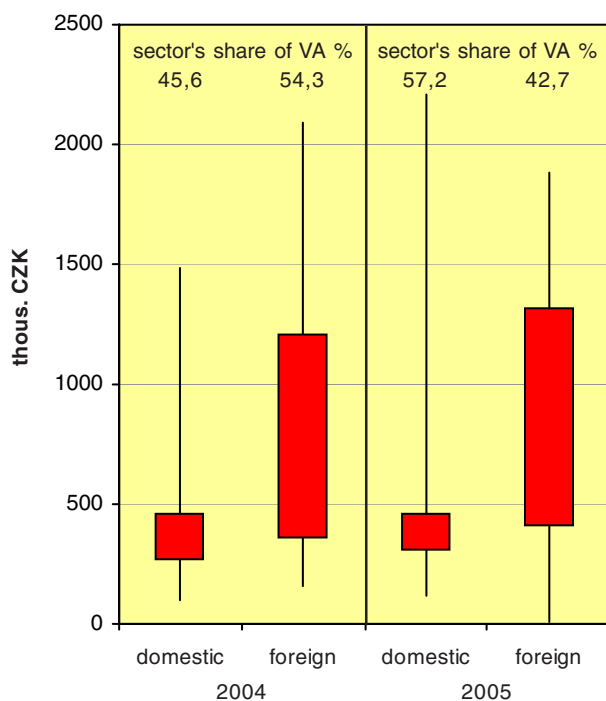
rubber and plastic products (25)



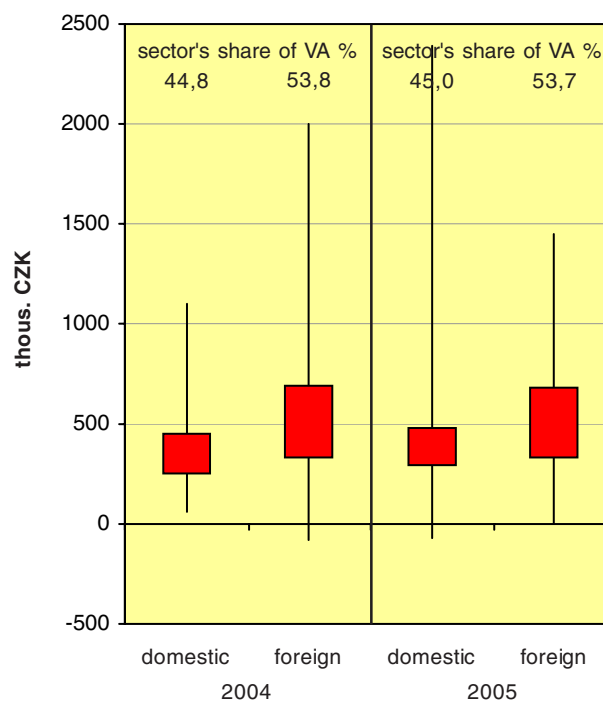
non-metallic mineral products (26)



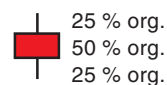
basic metals (27)



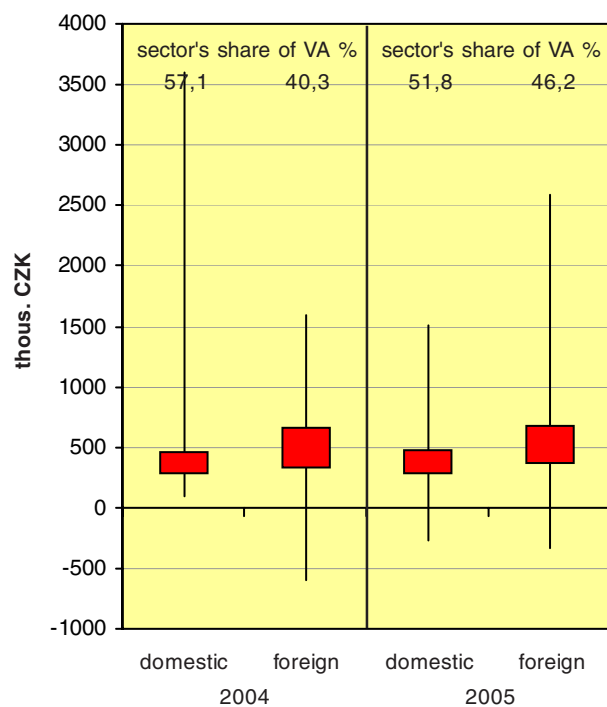
fabricated metal products (28)



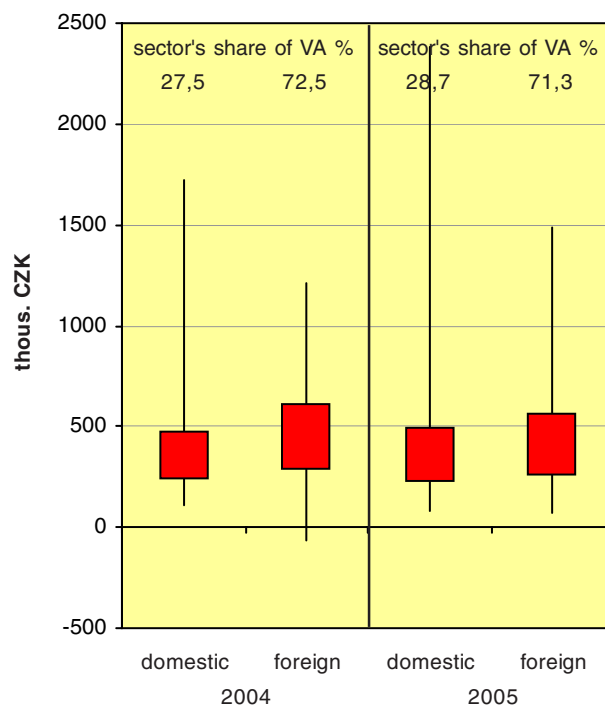
Comparison of Quartile Distribution of Enterprises in Domestic and Foreign Sector According to Value Added per Employee in Manufacturing Industry (firms with 100 and more employees)



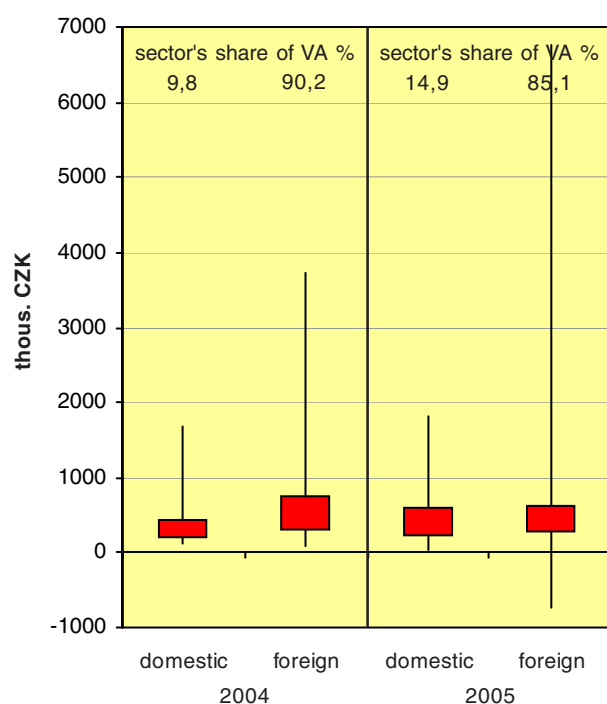
machinery and equipment (29)



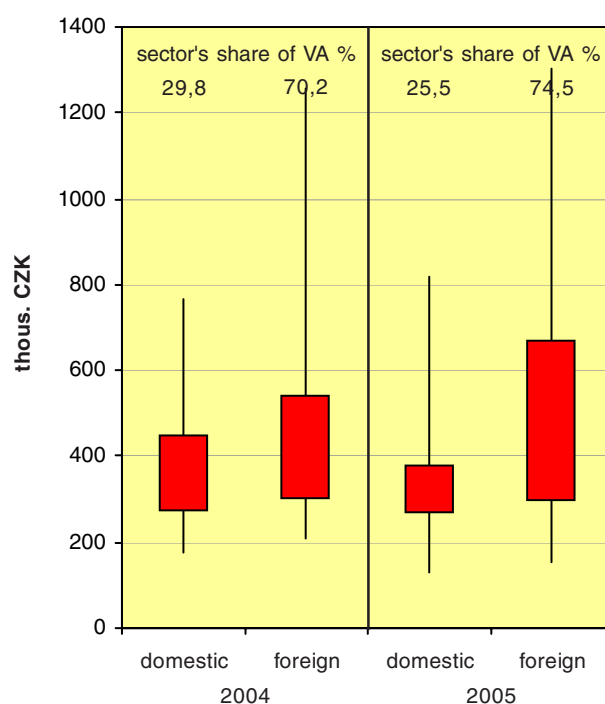
electrical machinery and apparatus (31)



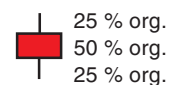
radio, television and communic. equipment (32)



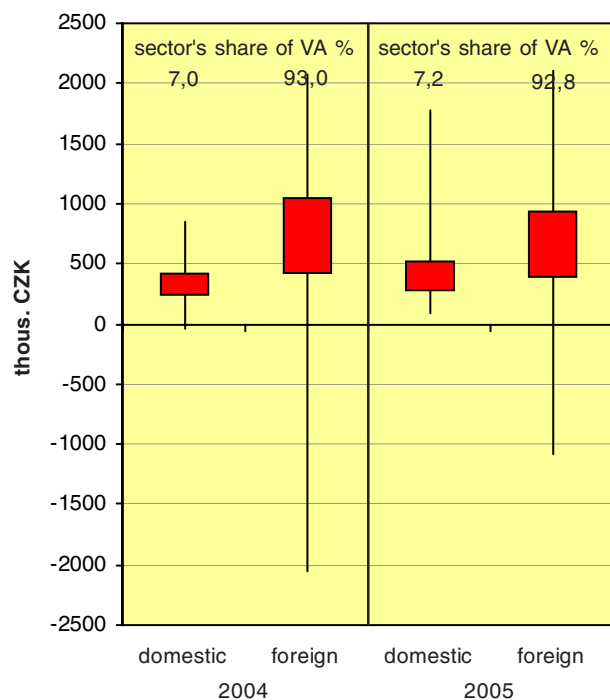
medical and optical instruments (33)



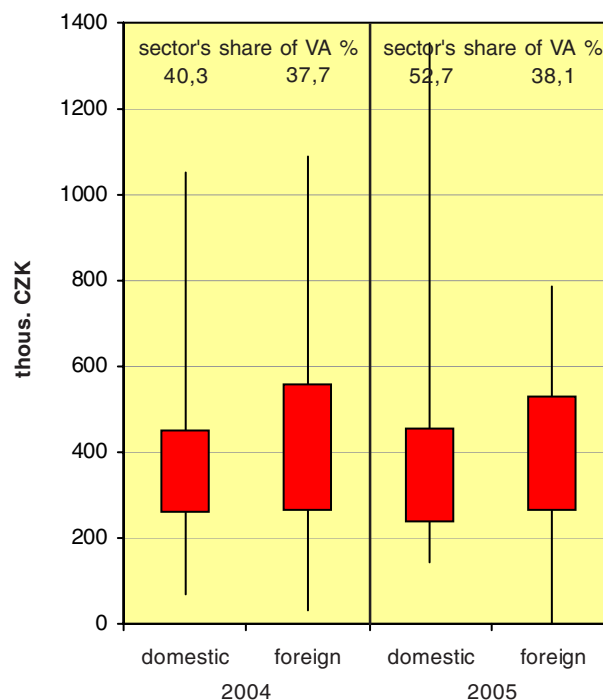
Comparison of Quartile Distribution of Enterprises in Domestic and Foreign Sector According to Value Added per Employee in Manufacturing Industry (firms with 100 and more employees)



motor vehicles, trailers (34)



other transport equipment (35)



furniture, manufacturing n.e.c. (36)

